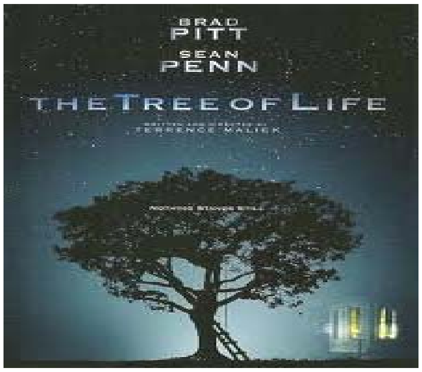

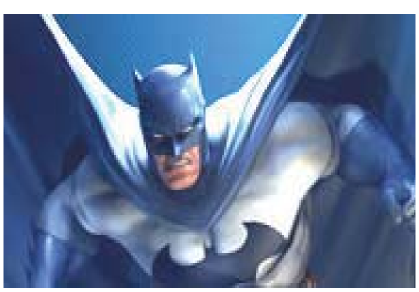

Texas Moving Image Industry Incentive Program:

The Economic Benefits From Incentives

Prepared for:

Texas Association of Business

By the:

Bureau of Business Research
IC² Institute
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Tables

Graphs

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The Bureau of Business Research, IC² Institute, The University of Texas at Austin

The Bureau of Business Research (BBR) was established in 1926 to provide small business owners and policymakers with applied economic research and data to strengthen the state's business environment. Throughout its history, the Bureau and its work has been characterized by objectivity and independence. The Bureau's prolific publications history includes *Texas Business Review*, the *Texas Business Leader's Confidence Index*, and numerous economic assessments and program evaluations. The IC² Institute was established in 1977 with the vision that science and technology are resources for economic development and enterprise growth. In addition to the BBR, the Institute oversees several targeted research programs that include the Austin Technology Incubator (with industry-specific incubation assistance for business start-ups in the software, clean energy, wireless, and bioscience technology sectors), and the Global Commercialization Group. The IC² Institute is directed by Professor John Sibley Butler and Professor Robert Peterson, Associate Vice President for Research at UT-Austin.

Project Staff

Dr. James Jarrett, Senior Research Scientist, IC² Institute, and Dr. Bruce Kellison, Associate Director of the Bureau of Business Research, IC² Institute, The University of Texas at Austin, served as the principal investigators. Brian Lewandowski, Research Analyst, Business Research Division, University of Colorado, Boulder, served as the senior researcher. The research was performed in late 2010 and early 2011.

Executive Summary

Background

This study analyzes the economic and fiscal impacts of the $80 million Texas Moving Image Industry Incentive Program. The incentive program was created to encourage companies, producers, and small businesses to choose Texas over other states when selecting sites for their film, television, commercial, and video game productions. An initial appropriation of $20 million was provided for the September 1, 2007—August 31, 2009 biennium. The initial incentive reimbursement rate, however, proved to be too low and uncompetitive compared to incentives offered by other state governments. In the 2009 legislative session, the program was augmented, creating a sliding scale for incentive grant reimbursements and appropriating $60 million for the biennium ending August 31, 2011. This study analyzes the economic and fiscal impacts of the $80 million spent and encumbered for approved projects between June 2007 and December 2010.

To obtain incentive funds, a qualifying production must apply to the Texas Film Commission (TFC) before production begins and must meet key criteria that stipulate production spending occurs in Texas and that wages only of Texas-based talent and crew and expenditures of Texas-based vendors are eligible for partial reimbursement. No funds are provided for non-Texas-based crew, residents, or vendors. If the application is approved, a project amount is encumbered. After production is completed, the production submits receipts and other proof of spending to the TFC, which then conducts a detailed review of receipts and disallows expenses if needed. The proposed reimbursement amount is then reviewed by a separate team of financial officials in the Governor's Office before funds are paid.

While 2010 technically was the fifth year of the incentive program, in reality the State of Texas has had a competitively functioning program only since late April 2009, the date when the new incentives became effective. Data in the main report illustrate the dramatic change in the number of approved projects and monthly encumbrances by the Texas Film Commission that occurred after May 2009. Data on membership and earnings of Texas-based crew members also have shown a similar increase since May 2009. These data show unmistakably that the current program incentives have had their intended effect by drawing substantially more productions to Texas, providing new jobs for Texas residents, and generating significant economic benefits.

Economic and Fiscal Benefits

The research team used the input-output economic modeling tool IMPLAN to analyze the economic impact of moving image industry production activity associated with the incentive program. The IMPLAN software incorporated data (expenditures, jobs, etc.) from the TFC and publically available secondary data on labor, wages, and output. The main input data from the TFC were (1) $598.3 million in direct moving production spending in Texas associated with the Texas Moving Image Industry Incentive Program from June 26, 2007 through December 31, 2010; and (2) A total of 6,519 full-time equivalent (FTE) Texas residents over the four years based on paid out or preliminarily-approved applications. This direct spending in the State of Texas multiplies through other industries in the supply chain, ranging from real estate and wholesale trade, to food services and health care. IMPLAN captures this economic activity by using economic multipliers, social accounting matrices, and trade flow data unique to the State of Texas. The model then produced results expressed in terms of direct, indirect, and induced impacts on output, employment, and wages.

Based on the $58.1 million paid and encumbered as of December 31, 2010, total economic benefits from the moving image industry incentive program were approximately $1.1 billion in direct, indirect, and induced economic activity in Texas from 2007 through 2010. This can be interpreted another way: for every dollar of the $58.1 million the Texas Film Commission had paid or encumbered as of December 31, 2010, $18.72 in private sector economic activity had been generated within the State of Texas. Note that these economic benefits do not include projects that did not apply for incentive funds, usually because they were too small to qualify, but that were attracted to Texas because of the existing industry infrastructure resulting from projects that did apply for incentives. Nor do the economic benefit calculations include additional spending from increased tourism at those locales where major productions have occurred or the value of new infrastructure such as studios that have been developed since the incentive program has been in effect.

This $1.1 billion has led to 10,383 (an average of 2,596 per year) Texas FTE jobs garnering an estimated $370.9 million in income over the four years. Economic benefits will rise as the total appropriation of $80 million is expended. Based on our IMPLAN model, total output will increase to $1.4 billion and full-time equivalent employment will expand to 12,930 jobs (8,062 direct and 4,858 indirect).

Fiscal benefits associated with Texas' moving image industry production range from sales and use taxes to property taxes. Given the natural stratified tax environment (federal, state, local, special districts, and school districts), the amounts vary by level of government. No federal revenues were estimated in this analysis. From 2007 to 2010, an estimated $39.9 million in state and sub-state tax revenue was generated by the direct and indirect spending associated with moving image industry productions and the Texas residents they hired. When the total appropriation is expended in 2011, tax benefits rise from $39.9 million to $51.1 million.

To estimate economic impacts of potential incentive program spending in the future, three different incentive scenarios over the next five years were performed with IMPLAN. One table (Table 4.9) contains the economic and fiscal impacts of a $30 million per biennium ($15 million per year) incentive program, totaled over five years. A second table (4.10) shows the impacts from a $60 million per biennium ($30 million per year) incentive program, and a third table (4.11) presents the impacts from a $90 million per biennium ($45 million per year) incentive program. Each of the tables begins with data from FY 2012-2013, shows amounts for each biennium, amounts for a final fifth year, and then a total for the five-year period.

Comparisons With Other States' Programs

In Chapter III of this report, the Texas Moving Image Industry Incentive Program is compared to programs in other states. The first comparison is the rate of film and television incentives, or what proportion of production expenses are reimbursed by state governments. Texas incentives are far less than in other states, particularly larger states, but also in states that are often identified as Texas' main competitors. For instance, the Texas reimbursable rate is much lower than that in Louisiana, New Mexico, and Oklahoma, and it is far less than the rates of Michigan, Ohio, New York, Georgia, and North Carolina. Also, video game incentive rates are lower in Texas than in nearly all of the 27 states and provinces that currently provide such an incentive. Another way of comparing incentives across states is to determine the per capita appropriation amount. Compared to a group of 9 large states, Texas offers the least amount of incentives on a per capita basis. Compared to a group of 14 competing states and provinces, Texas offers fewer incentives on a per capita basis than 12 of the 14 jurisdictions.

In rankings of program efficiency across states, Texas is the leader nationally. Based on the number of direct jobs created to date (6,519 FTEs) and program expenditures, the cost per FTE job on average is $8,916 in Texas. This cost per direct job is less than half that of all other states and one-fourth the cost in Louisiana. A second ranking of the cost per all jobs (6,519 FTE direct jobs and 3,864 FTE indirect jobs attributable to the program, or a total of 10,383) showed that Texas' cost of $5,598 was also the lowest among the states analyzed. These rankings demonstrate that the Texas program has been very efficient in creating moving image industry jobs for Texans.

Qualitative Information: Interviews

The research team conducted a series of interviews with individuals knowledgeable about the incentives: executives from video game companies, senior officers at film and television companies, owners and managers of studios, executives at vendors, and individuals knowledgeable about the industries. These interviews provided additional, substantial qualitative information to understand the Moving Image Industry Incentive Program, its importance to entertainment businesses, and how it compares with programs in other states and Canada. These interviews also identified limitations of the current program, suggestions for changes, and a number of potential improvements that industry participants believe should be addressed administratively or in a subsequent legislative session. A summary of key findings are presented below, but we urge interested readers to read the interview summaries in their entirety to understand the strong feelings and different perspectives of those who were interviewed.

Film and Television

Four interviews were conducted with film, TV commercial, and TV show producers. Three interviewees said the incentives are critically importantly or very important in deciding to shoot in Texas, while one said incentives were relatively unimportant. Most were critical of the delays in processing reimbursements for the Texas program. One credited the incentive program for attracting more casting agents, composers, production companies, a new special effects house, and downstream services moving to Texas. In her view, film and television infrastructure may be nearing a critical mass in Texas that might eventually survive the loss of incentives, but not now. Most producers said that as long as studio accountants look first for the presence of an incentive on the bid sheet, no amount of lobbying in support of Texas' other strengths (experienced crew base, lower stress than LA or New York City, good services) will be persuasive.

Knowledgeable Individuals
Another set of interviews were conducted with individuals knowledgeable of the industries but not directly participating in the incentives. These individuals included two academics who are filmmakers, an entertainment lawyer who structures contracts for many independent producers, two directors for local government film commissions, and an economic development director representing a statewide association. Most agreed that the moving image industry is very sensitive to the economics of incentives, and until a time when that is not the case, Texas will have to offer an incentive program. Areas of the state like El Paso and Houston, which are adjacent to or near states with higher incentives than Texas, are losing a large number of significant projects. El Paso alone estimated it has lost some $400 million in the past decade.

Studios
There was considerable diversity of opinions among the studio executives on many topics, although everyone believed it is crucial that current incentives be maintained, at a minimum. All executives who were interviewed said the industry has become very sensitive to cost in recent years, and that incentives immediately affect a project's bottom line, all other things being equal. There was a strong consensus that as long as other states are offering incentives, Texas must offer them too, to "remain in the game." Most studio executives said that reducing the delay in processing incentive receipts would greatly improve program effectiveness if it could be achieved.

Vendors
A number of interviews were conducted with representatives of companies that sell services to the moving image industry. While vendors themselves do not apply for incentives, much of direct spending on a commercial, television series, or film production is for non-labor services such as food and catering, camera and lighting rentals, transportation, and other services. All vendors were generally supportive of the incentive program. One vendor turned a criticism of the moving image industry on its head by saying that the transient nature of film and some TV projects is a plus, not a negative, because of the industry's "light touch" on water resources and lack of infrastructure demands.

Video Games
There was considerable diversity of opinion on many topics, although everyone agreed the current incentives should be maintained, and most felt they needed to be enhanced. Several video game executives mentioned other factors in Texas' favor that were more important than incentives, including highly skilled local talent, lower cost of living and lower housing prices compared to other regions known for game development (Seattle, San Francisco, and New York), close contact with clients, and the State of Texas' overall favorable business climate. Some executives felt that continuity in the incentive program was the key element of a program, not the particular rate of reimbursement. Changing, altering, or terminating incentives is more damaging to the development of the industry in Texas as a whole, they felt.

Qualitative Information: Case Studies

Four short case studies are presented that describe the impacts of film production on two private companies and two small rural Texas communities, Granger and Smithville. These cases illustrate the role that incentives play in a very specific context. The cases also highlight the widespread impact of moving image industry production in all types of locations (rural, suburban, and major metropolitan areas) as well as on different companies in Texas.

The case of Reel FX Entertainment, a Dallas-based animation/visual effects studio with 220 employees, typifies the critical role that incentives have played in its business and to animation, film, and television industries in Texas. The computer-generated Reel FX executives believe that the incentive has enabled them to attract projects to Texas which would not have occurred in the absence of the incentive. In the aggregate, they estimate these “wins,” which are due in large part to the incentive, total more than $25 million. However, the animated episodic business is extremely cost-sensitive and the amount of incentives provided in a public-private partnership often determines who wins. Reel FX identified projects worth $91 million that went to other states and Canada because of the higher incentives elsewhere. REEL FX could grow significantly in future years. For this to happen however, the current Texas incentives will need to be maintained: it has reestablished Texas as a competitive location in which to produce animation and visual effects

The case study on Granger, Texas, where the movie “True Grit” was filmed in 2010, highlights the economic effects of movie production on a small town. Producers spent $1 million on set construction in town, but they also left a number of municipal improvements such as new sidewalks, and repaired doors and windows in city-owned buildings. Based on interviews with the mayor and other prominent citizens, the case also reveals local economic benefits for private citizens of Granger: extra payments for leasing houses, buildings, and vehicles that would not have happened without the production.

The Spiderwood Studios case illustrates the large investments needed for infrastructure and the effects of the moving image industry incentive program on Texas studios. Spiderwood is a full service motion picture, music, and animation facility 30 minutes from downtown Austin that opened in the spring of 2009. It provides production and animation services and has a 200-acre back lot with a variety of terrains including waterfront on the Colorado River. In its short history it has been the location for 11 commercials, 7 feature films, two television pilots, two music videos, and two music recording and mastering projects among other activities. Texas’ low rate of incentives puts them at a disadvantage when economic considerations are the most important criterion. Nonetheless, the studio, which required an investment of millions for land purchase, land clearance, building construction, studio equipment, and animation equipment, has plans to build out the property if business conditions permit. According to the owner, if the incentive program were reduced or eliminated, they would be at a further disadvantage.

Finally, the case study we present on Smithville, Texas, illustrates the effects that multiple film projects filmed locally have had on the town’s very identity. Smithville has fully embraced film production and has built its municipal economic development strategy around recruiting production ever since the town hosted the producers of “Hope Floats” in 1997. Most recently, Terrence Malick's "The Tree of Life" was filmed in Smithville, as was a Jack Black feature film "Bernie." The town's mayor and other leaders point to the many indirect benefits of film production on local small business owners like restaurants and B&B's, especially when tourists and fans of the movies come to town. From "kickoff" parties at the start of a new film shoot, to monthly seminars hosted by the Chamber of Commerce for residents to learn about how to prepare for a casting call or list their homes for rent during productions, Smithville has fully embraced film production. And most local leaders and small business owners we interviewed believe that the film incentive program has played a vital role in the recent uptick in the number of films shot in Smithville since 2009. They worry that without the incentives to help lure producers to Texas and Smithville, their local economy will suffer.

Conclusions

The Texas Moving Image Industry Incentive Program is conservatively structured. Other states not only are much more generous than Texas in terms of their legislative appropriations (some have unlimited appropriations) and their incentive rates, but they pay for out-of-state actors and production crew. The Texas program pays only after producers have proven that they have spent their production dollars in Texas, on Texas-based crew, talent, and vendors. It is also important to note that the Texas program is front-loaded—economic benefits and jobs occur before incentive reimbursements/payouts occur.

Based on this report's extensive quantitative data, reviews of other states' incentive programs, and the qualitative interviews and case studies, the research team believes the Texas Moving Image Industry Incentive Program is very effective in achieving its legislative mandate. In addition to being an effective program, the Moving Image Industry Incentive Program is efficient as shown by its cost per job rankings. The program's results to date have been especially remarkable for two other reasons. First, incentives in Texas are less generous for film and television, and increasingly for video games, than those in other states. Second, the Moving Image Industry Incentive Program is very young. It has been functioning as a competitive program only since late April 2009, when the statute was amended and new rules were promulgated to make the program attractive to industry decision-makers. Trend-line data show that there was a profound change in the number of projects and encumbrances beginning at that juncture. This program is in its infancy and hit its stride for the first time in 2010. If given time to mature and build upon its very recent successes with the existing appropriation amount, there would be a large return to the State in jobs and actual revenue beyond the current levels reflected in this report. If the program appropriation is diminished, the number of Texas-based projects across all industry sectors in 2011 and 2012 would contract, as producers move projects to other states with incentives.

Possible Actions

In addition, from the large number of proposed changes offered by individual interviewees and from this review, the research team identified several actions for consideration by policymakers.

A. A multi-state and perhaps international conference, hosted in Texas, to discuss the feasibility of a coordinated effort to reduce film incentives in each state. This should be coupled with Texas-based research utilizing game theory to determine an optimal level of incentives by ensuring that Texas' relative competitive position would not be compromised in any manner during those years when incentives are diminished, if a multi-state agreement (multi-state compact) were negotiated.

B. One or more interim studies (with or without formal legislative authorization) to examine potential improvements to the Moving Image Industry Incentive Program that were identified in the research for this report. These include at least the following:

B.1. Expansion of incentives to new categories such as infrastructure (e.g. studios) as well as a new category in which preferential treatment is given to producers and companies who commit, and fulfill their commitments, to a set number of productions in future years.

B.2. Provision for productions unaffected, for all practical purposes, by current program incentives (e.g. faith-based shows due to their smaller budgets) or in extremely competitive production niches, such as computer-generated films.

B.3. Creation of a supplemental fund for both video games and films/television, or a fund for each industry, which would receive payments only from very successful (blockbuster) films and games through some type of post-release revenue or profit incentive mechanism. To study the feasibility of this complex issue, the research team recommends creating a committee of industry participants who are knowledgeable about financial and legal issues in the two industries.

B.4. Restructuring the video game incentives in terms of when payments would be made to companies, for instance providing incentive payments earlier in the process as "milestone" payments rather than "ship" bonuses for some companies; exploring if some funds should be allocated specifically to smaller game companies to encourage start-ups and entrepreneurial activity.

The economic development potential of these industries is quite exceptional, if given time to mature. Withdrawing support now would produce severe, immediate economic consequences and possibly irreparable damage for the next 10 years and beyond. Incentives are a necessary, if not sufficient, element of building a moving image industry in Texas. The Texas incentive program does more with less than other states' moving image industry incentive programs, and to compete with other states, Texas must have an incentive program in place.

Chapter I. Introduction

Program Background

Incentive programs are intended to cause an action or a behavior. The Texas Moving Image Industry Incentive Program was created to encourage producers to choose Texas over other states when selecting sites for their film, television, commercial, and video game productions.

While the Texas moving image industry is at least 95 years old, the incentive program is quite young. Technically, the program was created in 2005, although appropriations did not begin until the September 1, 2007—August 31, 2009 biennium. Rule-making delayed the incentive program's effective start date until March 2008. The initial incentive reimbursement rate, however, was too low and proved uncompetitive compared to incentives offered by other state governments. In the 2009 legislative session, the program was augmented, and in November 2009, rules were implemented which, among other provisions, created a sliding scale for incentive grant reimbursements for spending over thresholds that vary from $100,000 to $250,000: (1) up to 15% of total in-state spending for film, TV, and visual effects for film and TV; (2) up to 25% for wages paid to Texas residents for film, TV, and visual effects projects for film and TV; (3) up to 5% for video games, commercials, and instructional videos.[1] The key dates and additional background about the Moving Image Industry Incentive Program are provided in Table 1.1, nearby.

A total of $80 million has been appropriated for incentives since the program's inception. $20 million was appropriated for the biennium ending August 31, 2009, and $60 million for the biennium ending August 31, 2011. As of December 31, 2010, $6.2 million had been paid out and $57.8 had been encumbered, for a total of $64 million.[2] The unencumbered balance was $16 million.

A production interested in participating in the incentive program must apply to the Texas Film Commission (TFC) before production begins to be *preliminarily* approved for an estimated amount of program funds based on program criteria. The key criteria stipulate that production spending occur in Texas, including wages paid to Texas-based talent, crews, and vendors. After production is completed, the production submits payroll receipts and other proof of spending to the TFC, which then audits the receipts and releases the approved incentive amount to the production. The production company must demonstrate that it spent its reimbursable production funds in Texas. No funds are provided for non-Texas-based crew, residents, or vendors. And funds are disbursed only after a thorough review by Texas Film Commission staff and then by financial officials in the Governor's Office.

[1] Slightly higher incentive rates apply for projects in underutilized or economically distressed areas.
[2] The encumbered funds include $5.3 million for contingent amounts that differ from the estimates in the preliminarily approved projects.

Table 1.1. Key Dates for Texas Moving Image Industry Incentive Program

2005

Program was created by enabling legislation: SB 1142 Sen. Carona (R), Sen. Zaffirini (D); Rep. Hamric (R) in House. Initially called the Film Industry Incentive Program and contained in Subchapter B Chapter 485 Texas Government Code, the program received no appropriation.

2007

Program received initial funding of $22 million for the FY 2007/2008 biennium budget (9/1/2007-8/31/09). $20 million was appropriated for incentive grants and $2 million for administration and archives. Program was amended by HB 1634 Rep. Dukes (D), Sen. Deuell (R). Effective 6/8/2007:

- Program expanded beyond film to include television, commercials and video games
- Maximum grant set by statute at the lesser of 5% of total spend or (1) $2 million for film; (2) $2.5 million for TV; (3) $200,000 for commercials; or (4) $250,000 for video games.

2008

March 10, 2008: Effective date of Texas Film Commission regulations implementing the incentive program. Program begins.

2009

Legislature appropriates $62 million for the FY 2009/2010 biennium (9/1/2009-8/31/2011), including $60 million for incentive grants and $2 million for administration and archives.

Program was amended by HB 873 Rep. Dukes (D), Sen. Deuell (R) SB 605 effective April 23, 2009. This key statutory changes (a) eliminated the 5% cap on incentives and provided more flexibility to the film commissioner to establish grant amounts by regulation (amending Texas Government Code §485.024); (b) lowered the qualifying budget for films; (c) reduced the minimum number of Texas shooting days from 80 to 60; and (d) provided for additional incentives in underutilized areas. Bill required rules to be adopted no later than November 1, 2009, and prohibited awards of grants prior to adoption of rules. (Texas Film Commission accepted applications prior to this date.)

November 22, 2009, was the effective date of the rule change to create a sliding scale for incentive grants: (1) up to 15% of total in state spending for film, TV, and visual effects for film and TV; (2) up to 25% for wages paid to Texas residents for film, TV, and visual effects projects for film and TV; (3) up to 5% for video games, commercials, and instructional videos. Note that projects approved after April 24, 2009, were eligible for the new rates.

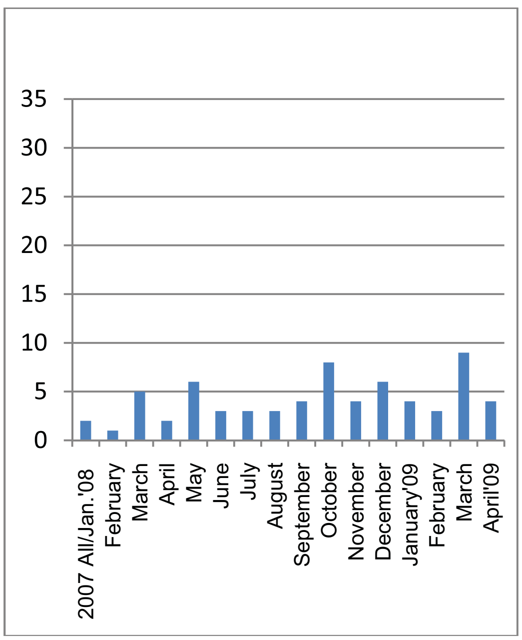
Recent Program History

Technically, 2010 was the incentive program's fifth year, but in reality, there has been a competitively functioning program only for a fraction of that time. The program did not become attractive to production decision-makers until the higher incentive rates and other provisions were implemented in 2009. The program only reached its stride in 2010, attracting five major television productions and several major feature films to the state, in addition to numerous commercials and video game productions.

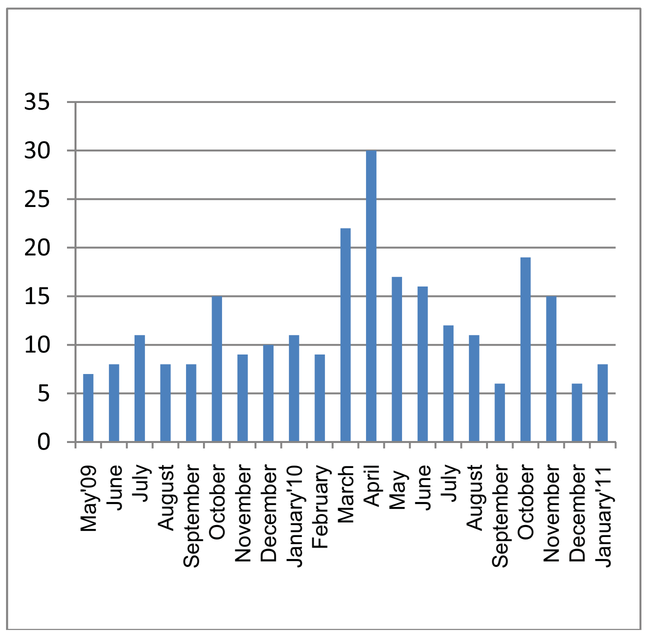
Several graphs below illustrate the significant increases in program activity since May 2009. Graphs 1.1 and 1.1-A show the number of approved projects before the current program was implemented and the number approved each month under the current program rules.

NUMBER OF APPROVED PROJECTS

GRAPH 1.1. PREVIOUS PROGRAM



GRAPH 1.1-A. CURRENT PROGRAM



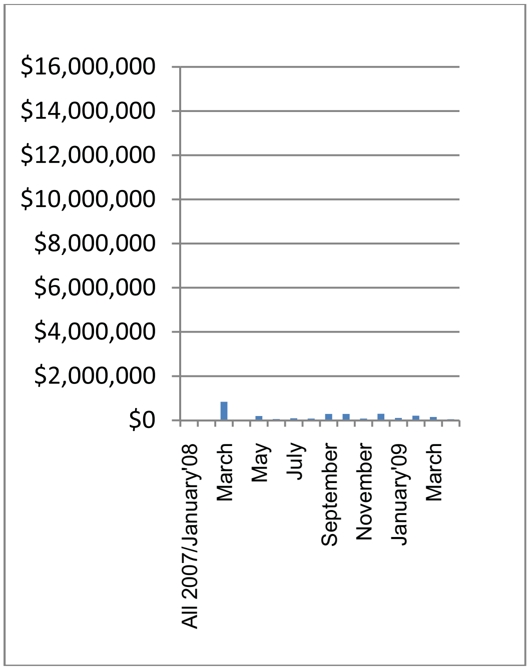
Source: Adapted from data provided by the Texas Film Commission

As is apparent, there has been a substantial increase during the past 18 months. The differences are actually even greater when one compares monthly program encumbrances.

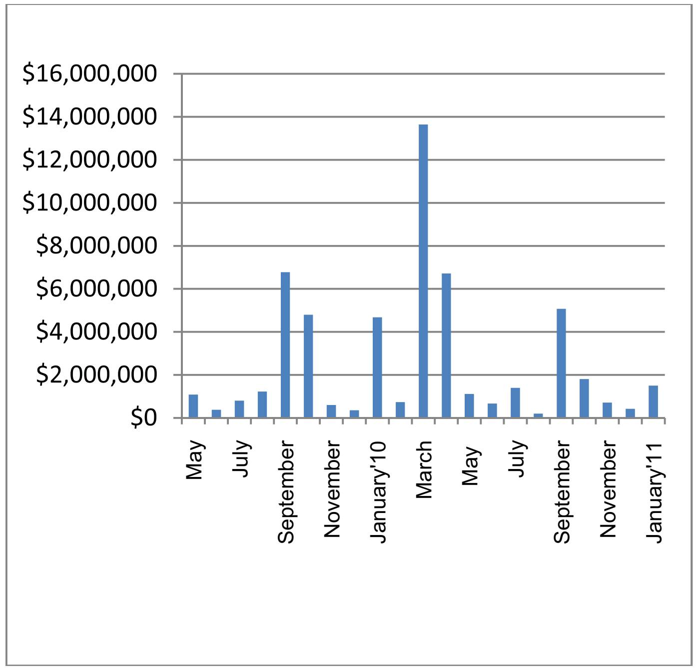
Graph 1.2 shows the amounts (in millions of dollars) under the initial incentives. Graph 1.2-A exhibits the monthly encumbrances for the current program incentives.

MONTHLY ENCUMBRANCES

GRAPH 1.2. PREVIOUS PROGRAM



GRAPH 1.2-A. CURRENT PROGRAM



Source: Adapted from data provided by the Texas Film Commission

The encumbrance amounts in the two graphs clearly illustrate that the current program incentives have drawn substantially more productions to Texas and that the relatively recent program rule changes have proven effective.

Project Goals

The remainder of this report focuses in more detail on the economic impacts of the Moving Image Industry Incentive Program, documents its effectiveness and efficiency relative to other states' programs, and explores potential ramifications if funding were reduced or eliminated.

The research team used a variety of data, data collection tools, and research methodologies. The Texas Film Commission supplied the researchers with primary data on the number of applications to the program, the total amount of production in Texas potentially represented by those projects, and the estimated number of Texas residents employed by those projects.

The economic and fiscal impacts presented in the report are generated by IMPLAN, a widely accepted input-output model frequently used by economists and analysts. IMPLAN was chosen for this project because it was used in a previous study on the Texas Film industry in 2008. [3]

In addition to the quantitative analyses, the research team collected extensive qualitative information. In order to gain insight into the attitudes of industry people who have used the Incentive Program, we conducted interviews with approximately two dozen knowledgeable individuals such as academics, representatives of industry vendors, and executives of TV commercial, film, studio, television, and video game companies.

Four case studies based on field trips are presented to illustrate the economic impacts on particular companies and towns of production activity supported by the Incentive Program. Additional materials are presented in several appendices.

The data presented in subsequent chapters are conservative estimates of economic activity directly or indirectly attributable to the $80 million appropriated for the incentives since the program's inception. Before examining the economic impacts in greater detail, we review the various moving image industries (feature films, episodic television series, animation, and video games) in Texas, how the Texas incentives for film and video games compare to those in other states, and the effectiveness and efficiency of the Texas incentives in creating jobs for Texas taxpayers.

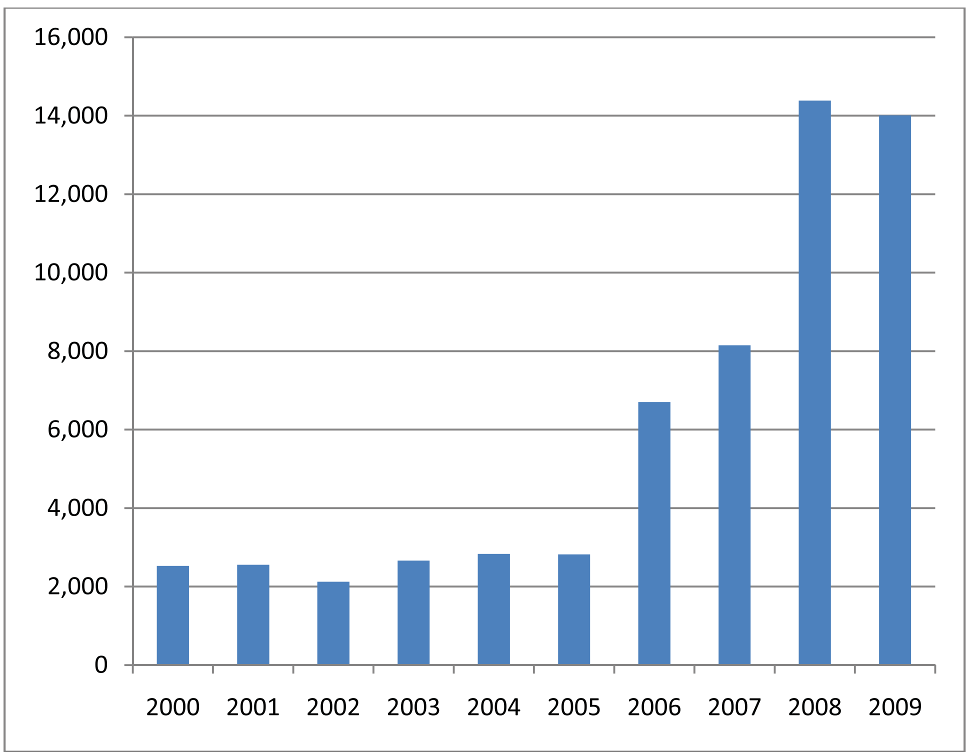
[3] See Bernard L. Weinstein, Terry L. Clower, and Michael Seman. December 2008. "The Current and Potential Economic and Fiscal Impacts of Texas' Moving Media Industry." Prepared for Texas Comptroller of Public Accounts. Austin, TX.

Chapter II. Texas Moving Image Industries

In this chapter, we describe the major Texas moving image industries. Please note that the graphs in this chapter are based on data for the moving image segments and industries for the entire State of Texas. Data in these initial graphs are NOT for incentive-supported projects only.

Graph 2.1 shows the estimated number of moving image industry jobs in Texas since 2000 for studio feature films, independent films, TV episodes, animation, video games, and other television.[4] Note that the definition of "jobs" changed over time—prior to 2007 only crew jobs were included, while in 2007, cast and sometimes extras were counted when these data were reported to the Texas Film Commission. In addition, data for animation and video games were available only for 2006 through 2009. Nonetheless, as is apparent, there is a fairly major increase beginning with 2006, and especially in 2008 and 2009. (Note: these data have not been converted to "full-time equivalent" or FTE jobs.)

GRAPH 2.1. TEXAS MOVING IMAGE INDUSTRY MEDIA JOBS—FEATURE FILMS, INDEPENDENT FILMS, TV EPISODES, ANIMATION, VIDEO GAMES, OTHER TELEVISION

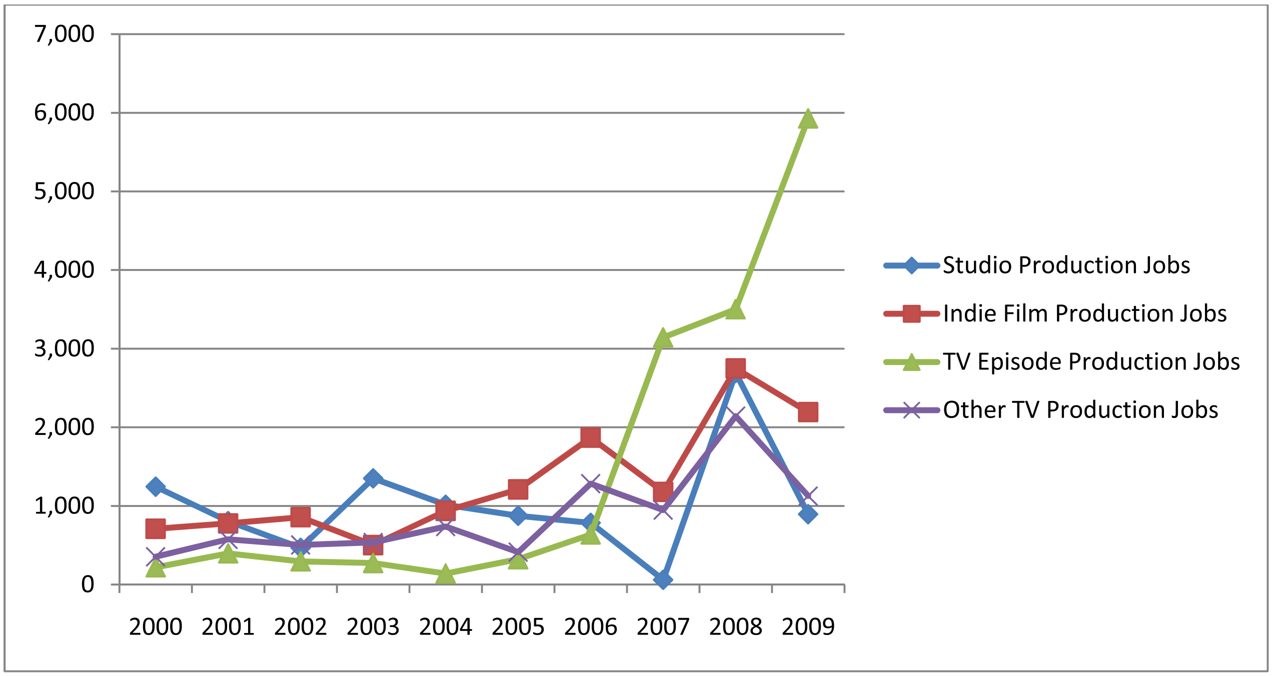


Source: Adapted from data provided by the Texas Film Commission

[4] The last category includes single episodes of series, program segments, pilots, television movies, miniseries, specials, documentaries, and music videos. Data for sports production and permanent commercial and corporate production could not be included in any of the years because of major changes in reporting definitions.

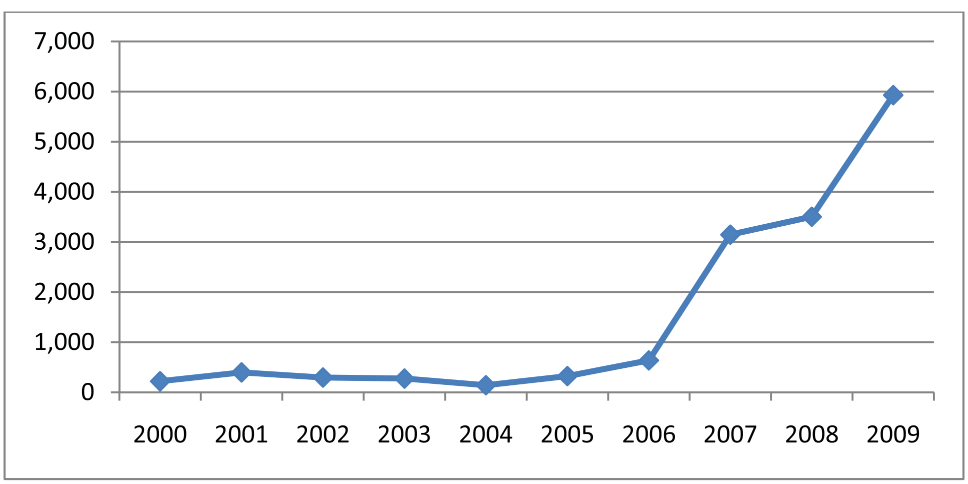
A more detailed view of the ebb and flow of employment is shown in Graph 2.2. While all four categories increased from 2006 through 2009, television episode production jobs increased dramatically. Graph 2.3 shows the growth for only TV episode jobs over 10 years.

GRAPH 2.2. TEXAS FILM AND TELEVISION PRODUCTION JOBS BY MAJOR CATEGORY



Source: Adapted from data provided by the Texas Film Commission

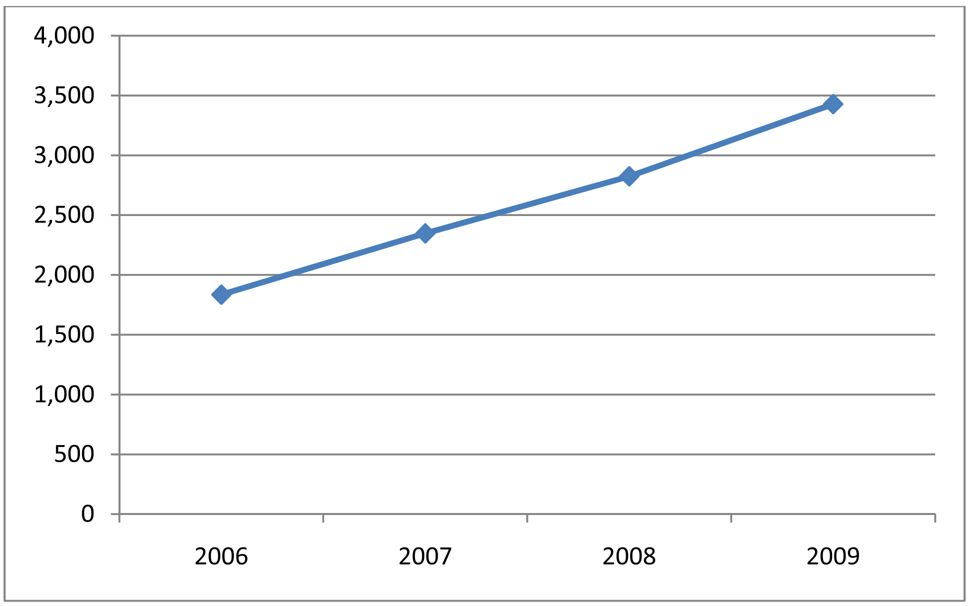
GRAPH 2.3. TV EPISODE JOBS



Source: Adapted from data provided by the Texas Film Commission

Another segment participating in the Moving Image Industry Incentive Program is video games. Texas now has the second largest number of video game jobs of any state, behind California and slightly ahead of the State of Washington. Because only four years of video game data are available from the Texas Film Commission and the Entertainment Software Association, it is unclear how much of the dramatic increase shown in Graph 2.4 may be due to incentives. Nonetheless, the pattern is striking, and the upward trend has been over a period when the video game industry as a whole experienced a much lower rate of growth, at least in 2009 and 2010, than it has in other years.

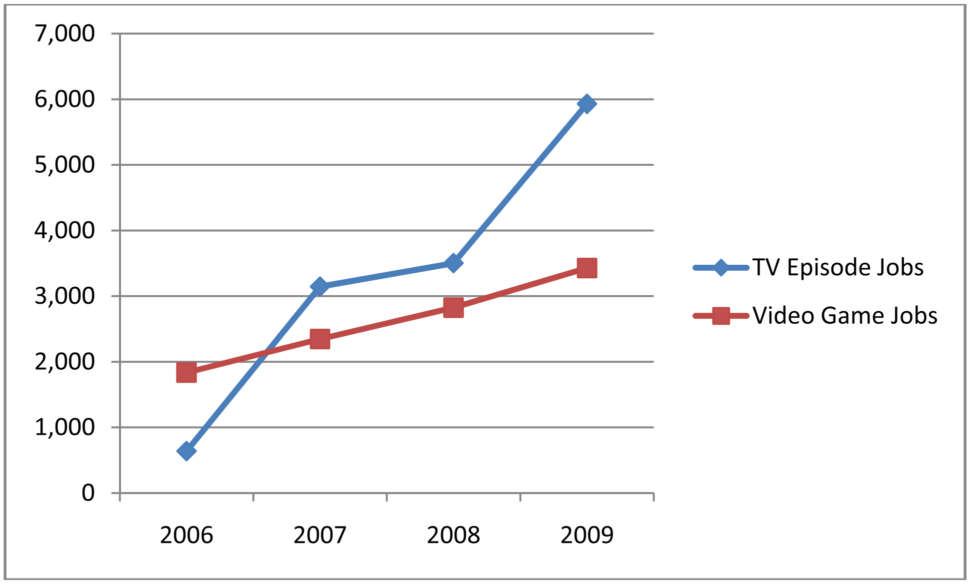
GRAPH 2.4. TEXAS VIDEO GAME JOBS



Source: Adapted from data provided by the Texas Film Commission

A final graph on employment, Graph 2.5, compares the growth over the past four years in video games and television episode production jobs. As we have seen, both segments have been growing rapidly in Texas.

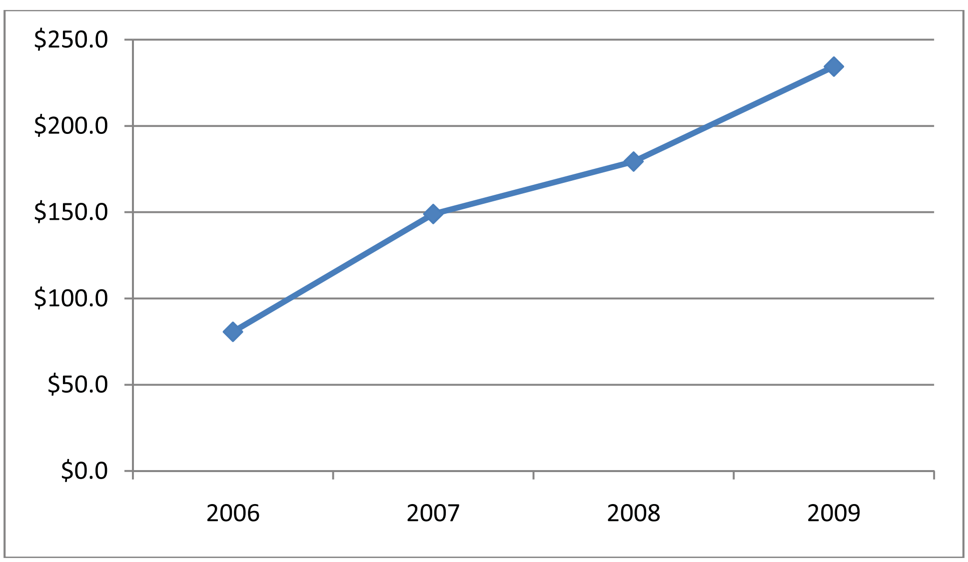
GRAPH 2.5. TV EPISODE PRODUCTION JOBS AND VIDEO GAME JOBS



Source: Adapted from data provided by the Texas Film Commission

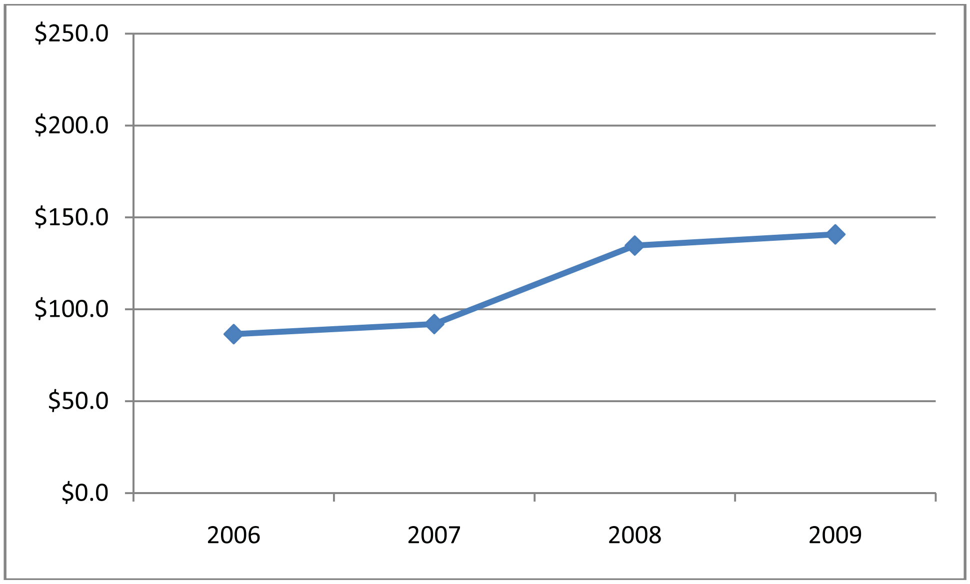
Production spending in recent years has exhibited the same general patterns as employment. Graph 2.6 shows video game production spending over the past four years (only data available), and Graph 2.7 shows commercial production spending in the same time frame. Both have had big increases.

GRAPH 2.6. VIDEO GAME PRODUCTION SPENDING IN TEXAS ($ MILLIONS)



Source: Adapted from data provided by the Texas Film Commission

GRAPH 2.7. COMMERCIAL PRODUCTION SPENDING IN TEXAS ($ MILLIONS)

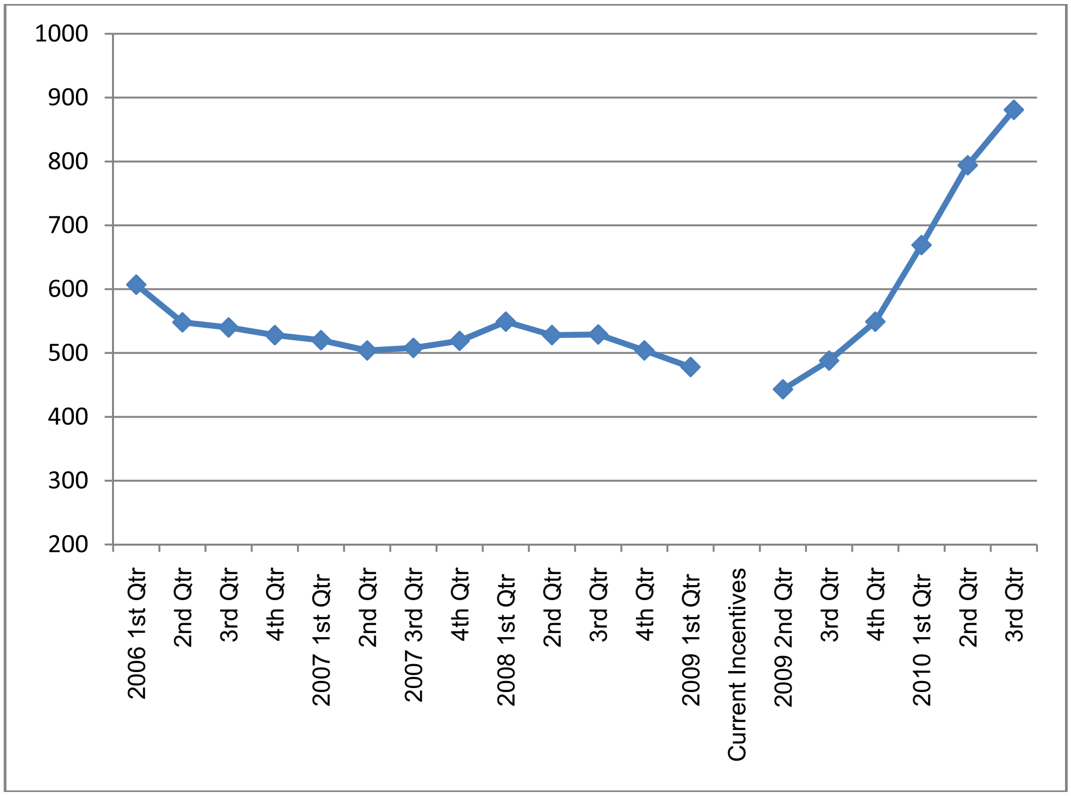


Source: Adapted from data provided by the Texas Film Commission

The impact of the current moving image industry program incentives is shown more clearly in information provided by IATSE, chapter 484 (the union of professional stagehands, motion picture technicians, and allied crafts).[5] Graph 2.8 shows membership declining by 27% from January 2006 through June 2009, then rapidly accelerating after the new incentive program was implemented. In slightly over one year, membership has doubled.

[5] These data are for the State of Texas. According to IATSE, 60 to 65 percent of all workers on film and television projects are IATSE members.

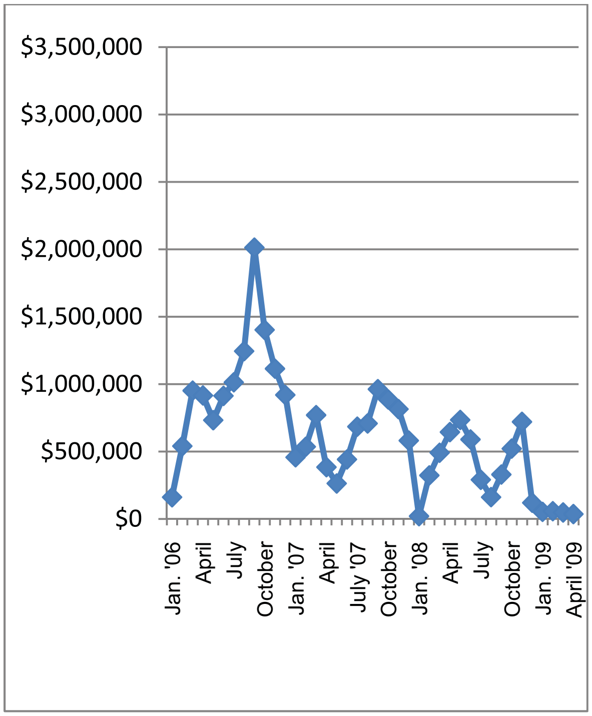
Graph 2.8. IATSE Membership Before current program and under Current program Incentives (Number at End of Each Quarter)



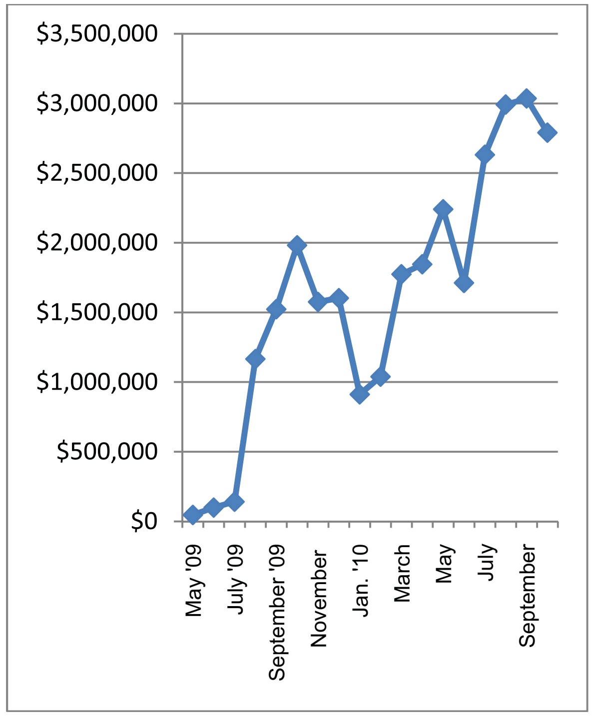
Source: Adapted from data provided by IATSE.

A similar pattern is shown in Graphs 2.9 and 2.9-A, which illustrate the monthly earnings for all IATSE members. From Graph 2.9-A, earnings have been increasing robustly since mid-2009.

GRAPH 2.9. MONTHLY EARNINGS FOR IATSE MEMBERSHIP—BEFORE CURRENT PROGRAM



GRAPH 2.9-A. MONTHLY EARNINGS FOR IATSE MEMBERSHIP--CURRENT PROGRAM



Source: Adapted from data provided by IATSE.

The general pattern of industry segment data in graphs 2.1 through 2.7 suggests the moving image industry incentive program has had its intended effect. When graphs 2.8, 2.9, and 2.9-A are combined with the industry trend data in graphs 2.1 through 2.7, the conclusion is unmistakable: the current incentive program has generated substantial economic impacts, and has significantly affected employment and production in the State of Texas.

Chapter III. Comparisons of Moving Image Industry Incentive Programs

In this chapter, we examine how the Texas Moving Image Industry Incentive Program compares to programs in other states and analyze key program performance measures, placing Texas in a comparative perspective. The last section shows rankings across the states in the cost per job, a key metric for quantitatively assessing a state government incentive program. There is a clear pattern across the several measures in this chapter: the Texas program has been both highly effective and very efficient in creating jobs for Texans.

Texas Film Incentives Compared to Other States

The Texas Moving Image Industry Incentive Program is not generous compared to other states. For film incentives, the most important characteristic for private firms is the rate of the incentive—basically how much of their costs will be reimbursed by an incentive program. By every comparison possible, Texas incentives still are far less than in other states, particularly larger states, as well as states that are often identified as competitors. For instance, the Texas reimbursable rate is much lower than that in Louisiana, New Mexico, and Oklahoma. And it is far less than the most generous states of Michigan, Ohio, New York, and increasingly Georgia and North Carolina. Film incentive rates in competing states are shown in Table 3.1.

TABLE 3.1. FILM AND TELEVISION INCENTIVE RATES IN OTHER STATES

Florida	Transferable tax credit at 20% rate with 5% bonus for "off-season" projects and 5% bonus for "family friendly" projects.
Georgia	Transferable tax credit at 20% rate plus 10% bonus if "qualified Georgia promotion" peach logo is used.
Louisiana	Transferable tax credit (and partially refundable) at rate of 30% for qualifying local spending, including the payroll of residents and non-residents, and 5% bonus for resident payroll above $1 million.
Michigan	Refundable and transferable tax credit at 40% rate (42% in core communities with other incentives for infrastructure investment and job training expenditures.
New Mexico	Refundable tax credit at rate of 25%.
New York	Refundable credit at rate of 30% with 10% rate on post-production if 30% rate not exercised.
North Carolina	Refundable tax credit at 25% rate effective January 2011.
Ohio	Refundable tax credit at 35% of resident cast and crew and 25% of other qualifying local spending.
Oklahoma	Cash rebate at 35% rate with 2% bonus for music/recording. Rate between 10% and 25% for construction of film/music facilities. [6]

[6] Information is from Entertainment Partners publication, "Basic Overview of U.S. and International Production Incentives." Information is current as of December 20, 2010.

Another way of comparing incentives across states is to determine how much states are providing adjusted for the population size of a state, that is, how much on a per capita basis is Texas offering compared to other states. A per capita ranking would illustrate if Texas is being more generous or less generous to the industries compared to other states.

As shown below in Table 3.2, four of the larger states have unlimited amounts of state dollars available—there is no appropriation cap. Of the five other states besides Texas, only Ohio has an appropriation limit that is lower than that for Texas. The last column shows what each of these states is providing on a per capita basis, that is adjusted for total population, and Texas is clearly the least generous.

TABLE 3.2. FILM AND TELEVISION INCENTIVES PER CAPITA—LARGE STATES

		Population	Incentives//Annual	Incentives Per Capita
1	Georgia	9,829,211	No cap	No cap
2	Illinois	12,910,409	No cap	No cap
3	Michigan	9,969,727	No cap	No cap
4	North Carolina	9,380,884	No cap	No cap
5	New York	19,541,453	$420,000,000	$21.49
6	Pennsylvania	12,604,767	$60,000,000	$4.76
7	Florida	18,537,969	$53,500,000	$2.89
8	California	36,961,664	$100,000,000	$2.71
9	Ohio	11,542,645	$15,000,000	$1.30
10	***Texas***	***24,782,302***	***$30,000,000***	***$1.21***

The pattern is similar with competing jurisdictions as shown in Table 3.3. Texas is very near the bottom, ahead of only Virginia and Colorado. Worse, the two primary adjacent states, New Mexico and Louisiana, currently have unlimited amounts available for incentives. And the primary Canadian competitor for outdoor locations, Alberta, is extremely generous on a per capita basis and actually has a pool of incentives larger than Texas, despite having 20 million fewer people.

TABLE 3.3. FILM AND TELEVISION INCENTIVES PER CAPITA—COMPETING JURISDICTIONS

		Population	Incentives//Annual	Incentives Per Capita
1	Georgia	9,829,211	No cap	No cap
2	Louisiana	4,492,076	No cap	No cap
3	New Mexico	2,009,671	No cap	No cap
4	North Carolina	9,380,884	No cap	No cap
5	Alaska	698,473	$67,000,000	$95.92
6	New York	19,541,453	$420,000,000	$21.49
7	Arizona	6,595,778	$70,000,000	$10.61
8	Utah	2,784,572	$10,000,000	$3.59
9	Florida	18,537,969	$53,500,000	$2.89
10	California	36,961,664	$100,000,000	$2.71
11	South Carolina	4,561,242	$10,000,000	$2.19
12	***Texas***	***24,782,302***	***$30,000,000***	***$1.21***
13	Virginia	7,882,590	$4,500,000	$0.57
14	Colorado	5,024,748	$600,000	$0.12
	Canada			
	Alberta	3,724,832	$33,320,000	$8.95

Texas Video Game Incentives Compared to Other Jurisdictions

Until two years ago, incentive programs supporting the video games segment were rare. As of December 2010, there are now approximately 20 states offering incentives for video game development (this does not include one-time incentives offered by Rhode Island and Utah to lure major studios to their states). And like programs for film incentives, the Canadian provinces, particularly Quebec and Ontario, have incentives that have proven quite attractive to developers.[7]

[7] This material is based primarily on three compilations by two law firms. "Tax Incentives for Video Game Companies" by Beck Reed Riden, October 2010, is available at: http://prefabuloussites.com/brion/wp-content/uploads/10-8-10-Update-video-game-tax-incentives.pdf .
"A State-by-State Guide to Business Incentives for Your Interactive Entertainment Production" by Pillsbury Winthrop Shaw Pittman LLP, December 7, 2010, is available at http://www.pillsburylaw.com/siteFiles/Publications/SET_WhitePaper_USProductionIncentives_12710_final.pdf .
"A Guide to Business Incentives for Interactive Entertainment Production in Canada" by Pillsbury Winthrop Shaw Pittman LLP, December 22, 2010, is available at http://www.pillsburylaw.com/siteFiles/Publications/WhitePaperCanadianVideoProductionincentives122210_final.pdf .

The video game production incentive provides 5% of qualifying expenses (or slightly more if in an underutilized area). The incentive rates for competing states are shown in Table 3.4.

TABLE 3.4. VIDEO GAME INCENTIVE RATES IN OTHER STATES

Florida	20% tax credit (5% additional cash rebate if deemed "family friendly")
Georgia	20% tax credit (10% additional by including a Georgia promotional logo)
Louisiana	25% tax credit for expenditures (additional 10% based on labor costs for state residents)
North Carolina	15% tax credit for salaries—became effective January 1, 2011.
Rhode Island	25% tax credit
Nova Scotia	50% tax credit for labor costs (60% if located outside of Halifax)
Ontario	Several tax credits (40% tax credit of qualifying labor expenditures and and 50% of other expenditures); export fund for digital media industry
Quebec	30% tax credit for labor

Texas video game employment is expanding rapidly: 17% annually from 2006 to 2009, despite a comparatively low incentive rate.[8] The state has the second largest number of video game jobs in the nation, albeit with only one-quarter as many employees as California, and other states have targeted video games for state economic development.[9] Texas' competitive advantage in the video game industry is at risk.

Costs and Benefits—Program Effectiveness and Efficiency

The number of full-time equivalent (FTE) jobs attributable solely to the incentive program since its inception is 6,519. The number of FTE jobs by major category is:

Television Programs	2,580
Video Games	2,408
Feature Films	1,151
Other	380

[8] Please see Appendix D for a listing of Texas game development companies and their websites.

[9] While second in employment, Texas is still far behind California which has approximately four times as many workers. Video game employment data by state are from "Video Games in the 21st Century: The 2010 Report," by Stephen E. Siwek, available from the Entertainment Software Association at: http://www.theesa.com/facts/pdfs/VideoGames21stCentury_2010.pdf

Since inception, based on projected outlays and employment, the cost per FTE job on average is $8,916, for each of the 6,519 jobs. The average cost per job varies by category as shown in Table 3.5.[10]

TABLE 3.5. COST PER JOB BY CATEGORY

	Amount Granted/ Encumbered	*Texas Spending*	*FTEs (rounded)*	*Cost Per FTE**
Video games	$10,880,512	$215,253,484	2408	***$4,518***
Television programs	$26,424,944	$181,244,119	2580	***$10,242***
Television commercials	$1,911,498	$32,001,365	172	***$11,113***
Feature films	$15,190,998	$116,011,440	1151	***$13,198***
Reality television projects	$433,045	$7,199,004	26	***$16,656***
Visual effects projects	$1,310,946	$10,612,877	77	***$17,025***
Commercials (other)	$1,932,479	$35,181,267	103	***$18,762***
Educational or instructional videos	$38,664	$773,271	1	***$38,664***
	$58,123,086	$598,276,827	6519	***$8,916***

*Amount granted/encumbered divided by FTEs

Cost Per Job Comparisons with Other States

Reports have been prepared about various other states' film incentive programs.[11] In at least two states, New Mexico, and Michigan, two different reports have been developed. In addition, there have been several analyses that have reviewed the various reports and/or film incentive costs and benefits more generally.

One must be extremely cautious about comparing states' results because of important assumptions and methodological approaches that are used or not used by the authors. To avoid these mistakes, we have used one compilation of data for several of the states, with the remaining data being drawn from individual reports, with every attempt to exclude obvious differences. Equally important, there are substantial differences in the incentive programs—how the incentives are computed, when they are paid, the degree to which data are audited, and how full-time equivalent (FTE) employees are derived. For these reasons and others, the cost per job comparisons across states should be considered estimates.

[10] The average cost per job also varies by time period. For instance, the cost per job under the current incentives has been higher than under the initial incentive schema: $12,656 since April 2009 vs. $3,539 for pre-April 2009. While the cost per job is now higher, the relative effectiveness is superior and the number of jobs has increased from an average of 141 per month to 214 per month, an increase of 51.7%.

[11] Please see the bibliography for a complete list of the reports. More details about each of the major studies appear in Appendix B.

From Table 3.6 below, it is apparent that despite all the limitations of comparative analysis, the Texas program has been by far the most efficient. The cost per direct job is less than half that of all other states and one-fourth the cost per direct job in Louisiana.

TABLE 3.6. COST PER DIRECT JOB—TEXAS AND OTHER STATES
(TOTAL INCENTIVES PROVIDED, DIVIDED BY DIRECT JOBS ON FULL-TIME EQUIVALENT BASIS)

Texas	***$8,916***
New Mexico II (Ernst & Young)	$21,216
New York (Ernst & Young)	$26,227
Pennsylvania	$27,927
Louisiana	$34,773
New Mexico I (NMSU)	$43,210
Massachusetts	$45,434
Michigan	$100,000+

Table 3.7 shows the cost per all jobs (direct moving image jobs and jobs indirectly attributable to these direct jobs). The same general pattern occurs: Texas again has the lowest cost among the states analyzed. The Texas incentive program cost is about 35% less than that calculated by one of the two New Mexico studies, and slightly more than one-third the cost in Louisiana.

Table 3.7. Cost Per All Jobs—TEXAS AND OTHER STATES
(TOTAL INCENTIVES PROVIDED, DIVIDED BY THE SUM OF DIRECT JOBS AND INDIRECT JOBS, BOTH ON FULL-TIME EQUIVALENT BASIS)

Texas	***$5,598***
New Mexico II (Ernst & Young)	$7,543
New York (Ernst & Young)	$8,825
New Mexico I (NMSU)	$13,885
Pennsylvania	$14,697
Louisiana	$16,132
Massachusetts	$27,158
Connecticut	$31,810
Michigan	$44,561

In the next chapter, we examine the direct and indirect economic impacts of the Texas Moving Image Industry Incentive Program and develop projections about those impacts in future years.

Chapter IV. Economic and Fiscal Benefits from Incentives

Methodology

The Texas Film Commission (TFC) provided the following data for Texas Moving Image Industry Incentive Program projects between June 2007 and October 2010: project classification, status of application, project location, start date, and anticipated completion date, resident employment, wages, expenditures in Texas, and grant amounts. (See Table 4.1. for project classification categories.) Unapproved projects were purged from the data set, and the remaining projects were sorted by start date. Project expenditures, employment, and grants were then summed. Wage information was provided for 38% of the projects from 2007 to 2009 and was extrapolated to all projects by year. Wage information was only available for one project in 2010. For that reason, the average for the first three years was applied to all 2010 projects.

Data from the TFC were coupled with publically available secondary data on labor, wages, and output to analyze the economic impact of moving image production activity in the State of Texas. The TFC identified moving production expenditures and jobs, which served as data for use in the input-output economic modeling tool, IMPLAN. This software, as well as the accompanying 2009 (most current) multipliers, social accounting matrices, and trade flows, allow for economic analysis of the moving production industry and other related industries. <u>This model is unique to the economic activity in the State of Texas</u>**.** Results are disseminated in terms of direct, indirect, and induced[12] impacts on output, employment, and wages. (Please see Table 4.1. for definitions.) IMPLAN utilizes a 440 industry matrix, allowing for detailed industry analysis. Moving image industry spending was categorized into sector 346-motion picture and video industries.

In addition, IMPLAN aggregates fiscal impacts (taxes) for state and local areas. IMPLAN incorporates data compiled from the Bureau of Economic Analysis National Income and Product Accounts (NIPA) and Regional Economic Information System (REIS), and the Bureau of Labor Statistics (BLS) Consumer Expenditure Survey (CES), and the Census Bureau Annual Survey of State and Local Government Finances (SLGF). The tax impact views industry-specific taxes, as well as aggregated taxes for households and government.

Economic Impacts

Of the $80 million that has been appropriated for moving image industry incentives since the program's inception in 2007, $20 million was appropriated for the biennium ending August 31, 2009, and $60 million was appropriated for the biennium ending August 31, 2011. Between June 26, 2007 and December 31, 2010, payments for approved and completed projects, and encumbrances for approved projects that are currently being produced in Texas but have not yet submitted receipts to the TFC for reimbursement or whose receipts have yet to be reviewed, totaled $58.1 million. The remaining $21.9 million incentive program funds represent

[12] Induced refers to the impacts from households. For this study, indirect and induced will both be referred to as "indirect."

TABLE 4.1. DEFINITIONS OF TERMS, METHODOLOGY SECTION

Direct Spending: Spending directly undertaken by the group being studied (i.e., moving image industry production companies).

Employees: The number of FTE employees (full-time equivalent), based on data provided by the Texas Film Commission.

Indirect Impact (also known as the Multiplier Effect): Captures the rippling impacts of spending throughout a community. This refers to the increase (or decrease) in economic activity generated in the supply chain of the direct industry.

Operations: Spending related to the expenses incurred by moving production companies.

Project Classification: Type of projects, including:

- Television Commercial
- Television Program
- Video Game
- Feature Film
- Commercial
- Reality Television Project
- Visual Effects Project - Commercial
- Visual Effects Project - Feature Film
- Visual Effects Project - Television Program
- Educational or Instructional Video

unencumbered and contingency balances. The analysis below describes the economic impact of the $58.1 million that has been paid or encumbered as of December 31, 2010.

Based on approved applications, the TFC reported $598.3 million in direct moving production spending in Texas associated with the Texas Moving Image Industry Incentive Program from June 26, 2007 through December 31, 2010. TFC also reported that approved applications from moving image industry productions employed a total of 6,519 full-time equivalent (FTE) Texas residents over the four years (annual average 1,630). (Please see Table 4.2.) Because the moving image industry is comprised of sectors with projects that span from a few weeks to a few months to years (in the case of some video game productions and episodic TV series), producers applying to the Incentive Program report the number of "crew jobs" and the number of "work days." To standardize the data across industry segments, TFC converts industry jobs to FTE positions based on the number of crew jobs, the number of days that crew worked, the average length of the workday for that industry segment. It then divides by 2000 hours, the average hours worked per year in an 8-hour day.[13]

This direct spending in the State of Texas multiplies through other industries in the supply chain, ranging from real estate and wholesale trade, to food services and health care. These multiplier effects bring the total economic benefits of moving production to nearly $1.1 billion in direct,

[13] Please see also Appendix C for an illustration of a typical employment day for a television episode.

indirect, and induced economic activity in Texas from 2007 through 2010.[14] Of that amount, 10,383 (an average of 2,596 per year) Texas FTEs earned an estimated $370.8 million over the four years.

TABLE 4.2. TOTAL MOVING IMAGE INDUSTRY INCENTIVE PROGRAM PRODUCTION IMPACT, 2007-2010[15]

Impact Type	Output (millions)	Employee Compensation (millions)	FTE Employment (Total)	FTE Employment (Average)
Direct Effect	$598.3	$236.4	6,519.0	1,629.8
Indirect Effect	$173.1	$48.4	1,376.3	344.1
Induced Effect	$316.3	$86.1	2,487.4	621.9
Total Effect	$1,087.7	$370.8	10,382.7	2,595.7

Fiscal Impacts

Fiscal benefits associated with Texas' moving image industry production range from sales and use taxes to property taxes. Given the natural stratified tax environment (federal, state, local, special districts, and school districts), the amounts vary by level of government. No federal revenues were estimated in this analysis.

From 2007 to 2010, an estimated $39.9 million in state and sub-state tax revenue was generated by the direct and indirect spending associated with moving image industry productions and the Texas residents they hired.

Over the same period, the TFC reported $58.1 million in tax incentives provided for moving production. (It should be emphasized that economic benefits occur long **before** the state expends funds—actually only $6.2 had been paid by December 31, 2010. The remainder is an estimated amount earmarked for payment, contingent upon approval by the TFC and the Governor's Office.) The state, counties, cities, school districts, transit districts, community colleges, and special districts received $0.69 for every $1.00 paid in incentives based on direct economic activity. Please see tables 4.3., 4.4., 4.5., and 4.6., for more details on the economic benefits.

[14]These impacts are expressed in nominal terms and are not adjusted for inflation.
[15]These impacts are expressed in nominal terms and are not adjusted for inflation.

TABLE 4.3. TOTAL EMPLOYMENT, 2007-2010

NAICS	Sector	Direct	Indirect	Induced	Total
11	Agriculture, Forestry, Fishing and Hunting	0	1	19	20
21	Mining	0	2	5	7
22	Utilities	0	4	9	13
23	Construction	0	13	25	37
31-33	Manufacturing	0	34	49	83
42	Wholesale Trade	0	12	75	87
44-45	Retail Trade	0	5	470	474
48-49	Transportation and Warehousing	0	78	74	152
51	Information	6,519	366	43	6,928
52	Finance and Insurance	0	53	194	247
53	Real Estate and Rental and Leasing	0	148	135	283
54	Professional, Scientific, and Technical Services	0	222	106	328
55	Management of Companies and Enterprises	0	11	9	20
56	Admin and Support and Waste Mgmt Services	0	260	135	394
61	Educational Services	0	0	68	69
62	Health Care and Social Assistance	0	0	460	460
71	Arts, Entertainment, and Recreation	0	93	71	164
72	Accommodation and Food Services	0	35	278	313
81	Other Services (except Public Administration)	0	31	240	271
92	Public Administration	0	10	25	34
-	**Total**	**6,519**	**1,376**	**2,487**	**10,383**

TABLE 4.4. AVERAGE EMPLOYMENT, 2007-2010

NAICS	Sector	Direct	Indirect	Induced	Total
11	Agriculture, Forestry, Fishing and Hunting	0	0	5	5
21	Mining	0	0	1	2
22	Utilities	0	1	2	3
23	Construction	0	3	6	9
31-33	Manufacturing	0	9	12	21
42	Wholesale Trade	0	3	19	22
44-45	Retail Trade	0	1	117	119
48-49	Transportation and Warehousing	0	20	18	38
51	Information	1,630	91	11	1,732
52	Finance and Insurance	0	13	48	62
53	Real Estate and Rental and Leasing	0	37	34	71
54	Professional, Scientific, and Technical Services	0	55	27	82
55	Management of Companies and Enterprises	0	3	2	5
56	Admin and Support and Waste Mgmt Services	0	65	34	99
61	Educational Services	0	0	17	17
62	Health Care and Social Assistance	0	0	115	115
71	Arts, Entertainment, and Recreation	0	23	18	41
72	Accommodation and Food Services	0	9	69	78
81	Other Services (except Public Administration)	0	8	60	68
92	Public Administration	0	2	6	9
-	**Total**	**1,630**	**344**	**622**	**2,596**

TABLE 4.5. OUTPUT (IN $ MILLIONS), 2007-2010

NAICS	Sector	Direct	Indirect	Induced	Total
11	Agriculture, Forestry, Fishing and Hunting	0	0	1	1
21	Mining	0	1	2	3
22	Utilities	0	3	7	10
23	Construction	0	1	3	4
31-33	Manufacturing	0	11	27	38
42	Wholesale Trade	0	3	16	18
44-45	Retail Trade	0	0	26	27
48-49	Transportation and Warehousing	0	8	10	18
51	Information	598	50	14	662
52	Finance and Insurance	0	13	43	56
53	Real Estate and Rental and Leasing	0	26	59	85
54	Professional, Scientific, and Technical Services	0	28	13	41
55	Management of Companies and Enterprises	0	2	2	4
56	Admin and Support and Waste Mgmt Services	0	14	8	23
61	Educational Services	0	0	4	4
62	Health Care and Social Assistance	0	0	44	44
71	Arts, Entertainment, and Recreation	0	5	4	9
72	Accommodation and Food Services	0	2	16	18
81	Other Services (except Public Administration)	0	3	13	15
92	Public Administration	0	2	5	8
-	**Total**	**$598**	**173**	**316**	**1,088**

TABLE 4.6. EMPLOYMENT COMPENSATION (IN $ MILLIONS), 2007-2010

NAICS	Sector	Direct	Indirect	Induced	Total
11	Agriculture, Forestry, Fishing and Hunting	0.0	0.0	0.2	0.2
21	Mining	0.0	0.1	0.4	0.5
22	Utilities	0.0	0.5	0.9	1.3
23	Construction	0.0	0.5	0.9	1.3
31-33	Manufacturing	0.0	2.2	2.8	4.9
42	Wholesale Trade	0.0	0.9	5.3	6.1
44-45	Retail Trade	0.0	0.1	12.1	12.2
48-49	Transportation and Warehousing	0.0	3.4	3.4	6.8
51	Information	236.4	12.8	2.8	252.0
52	Finance and Insurance	0.0	3.0	9.7	12.7
53	Real Estate and Rental and Leasing	0.0	2.2	1.9	4.1
54	Professional, Scientific, and Technical Services	0.0	11.0	5.3	16.4
55	Management of Companies and Enterprises	0.0	1.0	0.8	1.9
56	Admin and Support and Waste Mgmt Services	0.0	7.3	3.6	10.9
61	Educational Services	0.0	0.0	2.1	2.1
62	Health Care and Social Assistance	0.0	0.0	20.8	20.8
71	Arts, Entertainment, and Recreation	0.0	1.3	1.4	2.7
72	Accommodation and Food Services	0.0	0.7	5.3	6.0
81	Other Services (except Public Administration)	0.0	0.9	5.1	6.0
92	Public Administration	0.0	0.5	1.4	1.9
-	**Total**	**$236.4**	**48.4**	**86.1**	**370.8**

The initial analysis presented in Table 4.7 documents the economic benefits and impacts from the $58.1 million in incentive program funds that have been paid on completed productions or encumbered for approved projects. A second table, 4.8, documents the economic benefits from the $80 million in incentive funds which have been appropriated, once these appropriations have been disbursed on approved projects. As is apparent, the benefits increase substantially. For instance, total employment swells to 12,930 from 10,383, taxes rise from $39.9 million to $51.1 million and total output strengthens from $1.08 billion to $1.41 billion.

TABLE 4.7. TEXAS MOVING IMAGE INDUSTRY INCENTIVE PROGRAM IMPACTS, 2007-2010

		2007	2008	2009	2010	Total
Incentives ($)	**Spent or Encumbered**	**3,283,457**	**5,331,445**	**18,098,435**	**31,409,748**	**58,123,085**
Total Output ($) Moving Image Production	Direct Output	62,702,135	105,298,952	161,958,135	268,317,605	598,276,828
	Indirect Output	64,667,767	91,566,993	141,773,458	191,406,380	489,414,598
	Total Output	**127,369,902**	**196,865,946**	**303,731,593**	**459,723,985**	**1,087,691,425**
Total Employment (FTE)	Direct Employment	1,301	1,139	1,863	2,216	6,519
	Indirect Employment	537	736	1,116	1,475	3,864
	Total Employment	**1,838**	**1,875**	**2,978**	**3,691**	**10,383**
	Average Total Annual Employment					**2,596**
Total Earnings ($)	Direct Earnings	38,006,410	46,001,761	72,314,566	80,063,982	236,386,719
	Indirect Earnings	18,077,738	25,331,324	38,749,352	52,304,346	134,462,761
	Total Earnings	**56,084,148**	**71,333,086**	**111,063,919**	**132,368,328**	**370,849,480**
Taxes ($) (state & local)	**Total Taxes**	**5,172,682**	**7,420,883**	**11,415,693**	**15,976,038**	**39,985,296**

TABLE 4.8. TEXAS MOVING IMAGE INDUSTRY INCENTIVE PROGRAM IMPACTS, 2007-2011

		2007	2008	2009	2010	2011	Total
Incentives ($)	**Spent or Encumbered**	**3,283,457**	**5,331,445**	**18,098,435**	**31,409,748**	**21,876,915**	**80,000,000**
Total Output ($) Moving Image Production	Direct Output	62,702,135	105,298,952	161,958,135	268,317,605	186,883,432	785,160,260
	Indirect Output	64,667,767	91,566,993	141,773,458	191,406,380	131,987,807	621,402,405
	Total Output	**127,369,902**	**196,865,946**	**303,731,593**	**459,723,985**	**318,871,239**	**1,406,562,664**
Total Employment (FTE)	Direct Employment	1,301	1,139	1,863	2,216	1,543	8,062
	Indirect Employment	537	736	1,116	1,475	994	4,858
	Total Employment	**1,838**	**1,875**	**2,978**	**3,691**	**2,537**	**12,920**
	Average Total Annual Employment						**2,584**
Total Earnings ($)	Direct Earnings	38,006,410	46,001,761	72,314,566	80,063,982	55,764,629	292,151,348
	Indirect Earnings	18,077,738	25,331,324	38,749,352	52,304,346	35,962,778	170,425,539
	Total Earnings	**56,084,148**	**71,333,086**	**111,063,919**	**132,368,328**	**91,727,407**	**462,576,887**
Taxes ($) (state & local)	**Total Taxes**	**5,172,682**	**7,420,883**	**11,415,693**	**15,976,038**	**11,139,999**	**51,125,295**

Note: Assumes the balance of $80 million incentive program is spent by the end of FY 2010-2011, with 2010 proportional impacts.

Projected Economic Impacts from Incentive Program Scenarios

To estimate economic impacts of potential incentive program spending in the future, three different incentive scenarios over the next five years were performed with IMPLAN. Table 4.9 contains the economic and fiscal impacts of a $30 million per biennium ($15 million per year) incentive program, totaled over five years, to match the format of a Fiscal Note from the Texas Comptroller. Table 4.10 contains the impacts from a $60 million per biennium ($30 million per year) incentive program, the amount of the current program. Table 4.11 presents the impacts from a $90 million per biennium ($45 million per year) incentive program, which would represent an expansion of the current program. All tables begin with data from FY 2012-2013, show the amounts for each biennium, amounts for a final fifth year, and then a total for the five-year period.

TABLE 4.9. INCENTIVES OF $30 MILLION PER BIENNIUM—TOTAL OF $75 MILLION FOR FIVE YEARS

FY2012-2013	Annual Employment	Employment	Labor Income	Output
Direct Effect	1682.3	3364.6	$127,322,637	$308,798,218
Indirect Effect	306	612	$28,452,733	$85,675,841
Induced Effect	590.25	1180.5	$51,854,885	$160,551,165
Total Effect	2578.5	5157	$207,630,256	$555,025,224
FY2014-2015	Annual Employment	Employment	Labor Income	Output
Direct Effect	1682.3	3364.6	$127,322,639	$308,798,208
Indirect Effect	280.25	560.5	$27,132,446	$83,663,801
Induced Effect	562.15	1124.3	$51,415,765	$159,035,862
Total Effect	2524.7	5049.4	$205,870,850	$551,497,871
FY2016	Annual Employment	Employment	Labor Income	Output
Direct Effect	1682.3	1682.3	$63,661,317	$154,399,102
Indirect Effect	262.3	262.3	$13,090,373	$41,123,033
Induced Effect	542	542	$25,549,616	$79,091,722
Total Effect	2486.7	2486.7	$102,301,305	$274,613,858
Total FY2012-2016	Annual Employment	Employment	Labor Income	Output
Direct Effect	1682.3	8411.5	$318,306,593	$771,995,528
Indirect Effect	286.96	1434.8	$68,675,552	$210,462,675
Induced Effect	569.36	2846.8	$128,820,266	$398,678,749
Total Effect	2538.62	12693.1	$515,802,411	$1,381,136,953
Total Taxes Collected				$49,053,792

TABLE 4.10. INCENTIVES OF $60 MILLION PER BIENNIUM—TOTAL OF $150 MILLION FOR FIVE YEARS

FY2012-2013	Annual Employment	Employment	Labor Income	Output
Direct Effect	3364.7	6729.4	$253,565,014	$617,596,437
Indirect Effect	611.9	1223.8	$56,905,467	$171,351,680
Induced Effect	1176.4	2352.8	$103,352,526	$319,997,280
Total Effect	5153	10306	$413,823,007	$1,108,945,397
FY2014-2015	Annual Employment	Employment	Labor Income	Output
Direct Effect	3364.7	6729.4	$253,565,018	$617,596,417
Indirect Effect	560.5	1121	$54,264,890	$167,327,602
Induced Effect	1120.35	2240.7	$102,474,276	$316,968,233
Total Effect	5045.6	10091.2	$410,304,185	$1,101,892,252
FY2016	Annual Employment	Employment	Labor Income	Output
Direct Effect	3364.7	3364.7	$126,782,503	$308,798,205
Indirect Effect	524.7	524.7	$26,180,745	$82,246,066
Induced Effect	1080.2	1080.2	$50,920,610	$157,631,447
Total Effect	4969.6	4969.6	$203,883,859	$548,675,717
Total FY2012-2016	Annual Employment	Employment	Labor Income	Output
Direct Effect	3364.7	16823.5	$633,912,535	$1,543,991,059
Indirect Effect	573.9	2869.5	$137,351,102	$420,925,348
Induced Effect	1134.74	5673.7	$256,747,412	$794,596,960
Total Effect	5073.36	25366.8	$1,028,011,051	$2,759,513,366
Total Taxes Collected				$97,919,387

TABLE 4.11. INCENTIVES OF $90 MILLION PER BIENNIUM—TOTAL OF $225 MILLION FOR FIVE YEARS

FY2012-2013	Annual Employment	Employment	Labor Income	Output
Direct Effect	5047	10094	$380,347,513	$926,394,646
Indirect Effect	917.9	1835.8	$85,358,212	$257,027,563
Induced Effect	1764.5	3529	$155,028,784	$479,995,916
Total Effect	7729.45	15458.9	$620,734,509	$1,663,418,125
FY2014-2015	Annual Employment	Employment	Labor Income	Output
Direct Effect	5047	10094	$380,347,499	$926,394,636
Indirect Effect	840.75	1681.5	$81,397,339	$250,991,414
Induced Effect	1680.55	3361.1	$153,711,415	$475,452,357
Total Effect	7568.3	15136.6	$615,456,254	$1,652,838,407
FY2016	Annual Employment	Employment	Labor Income	Output
Direct Effect	5047	5047	$190,173,759	$463,197,340
Indirect Effect	787	787	$39,271,123	$123,369,117
Induced Effect	1620.4	1620.4	$76,380,913	$236,447,164
Total Effect	7454.4	7454.4	$305,825,796	$823,013,621
Total FY2012-2016	Annual Employment	Employment	Labor Income	Output
Direct Effect	5047	25235	$950,868,771	$2,315,986,622
Indirect Effect	860.86	4304.3	$206,026,674	$631,388,094
Induced Effect	1702.1	8510.5	$385,121,112	$1,191,895,437
Total Effect	7609.98	38049.9	$1,542,016,559	$4,139,270,153
Total Taxes Collected				$146,879,083

We now shift from the macro-level analysis of economic benefits to the effects on small businesses and individual companies in the State of Texas. The research team conducted numerous interviews regarding how the incentive program has affected small business owners and how changes in the program would affect their companies and the state's business climate in coming years.

Chapter V. Qualitative Information: Interviews

The research team conducted a series of interviews with individuals knowledgeable about the incentives. These interviews were performed with senior officers at film and television companies, owners and managers of studios, executives at vendors, executives from video game companies, and individuals knowledgeable about the industries. These interviews provided additional, substantial qualitative information to understand the Moving Image Industry Incentive Program, its importance to entertainment businesses, and how it compares with programs in other states and Canada. These interviews also identified limitations of the current program, suggestions for changes, and a number of potential improvements which industry participants believe should be addressed administratively or in a subsequent legislative session.

Film and Television

Four interviews were conducted with film, TV commercial, and TV show producers. Three interviewees said the incentives are critically importantly or very important in deciding to shoot in Texas, while one said incentives were relatively unimportant.

Impact of Current Incentives (Are They Effective? How Important Are They Relative to Other Factors in Growing Entertainment Businesses?)

One independent film producer was extremely critical of the reimbursement process which requires a long wait for payment. She said the processing system simply has to be improved, and she is already changing her discussions with potential investors about future projects because of the long delays in receiving payments. According to her:

> *"Other states' programs work much better than Texas' does. Other programs, such as Philadelphia's, New York's, and Boston's, process incentives receipts within a month."*

This same person said her company will have two new production shoots in 2011, including one with desert scenes. She is considering New Mexico because of their incentives and her dissatisfaction with the reimbursement process. She said it is not the amount of the incentive that is necessarily important, because the importance of incentives relative to other factors changes production by production, but that there are no surprises which sour relationships with investors and backers. As for the importance of incentives relative to other factors when she makes a decision:

> *"The mix among the factors changes for each production but the factors generally are the same: availability of location, crew expertise, gear arrangements, weather, and knowledge of film ecosystem and region. Money is always a factor, and Texas is at a real disadvantage because of its low incentive."*

Another producer who concentrates on faith-based productions is critical of the program as well. First, he agrees the incentive amount is low, compared to most states, and "irrelevant" when compared to the very generous programs of Michigan and several other states. He believes the incentives are so low that they attract few productions on their own. Second, he dislikes the sliding scale which penalizes smaller productions and rewards larger producers.

According to this individual, he has considerable experience with incentives in New Mexico and is looking currently at utilizing incentives in either Michigan or Ohio, which recently implemented a generous (35%) incentive program. His new religiously-oriented production is scheduled to start in early 2011, and he and the director currently are assessing where to shoot. They are very tempted to go to Michigan even knowing that the state has no real crew expertise, he would need to bring all his gear in, the weather would be unfavorable, and they are completely unfamiliar with doing business there. The only reason would be Michigan's incentives. As he stated:

> "*The 'ease of shoot' factor is much higher in Texas but the economics do not look as good—I do all my own budgets and know what the numbers look like.*"

A third individual, who is the chief executive of a production and distribution company, has had productions in California, Texas, Michigan, Louisiana, Oregon, Washington, Arizona, New Mexico, Florida and several other states. According to him:

> *"The Michigan incentives are mind-bogglingly generous—that is why everyone in the industry has rushed in there. The 42% rate is only one component. Michigan also has significant incentives for distribution companies, which makes deals extremely attractive. Hawaii is another state which is very generous because infrastructure is eligible. Louisiana is great. Michigan's turnaround on incentives is around 30 days. Texas has very low incentives, a long time for processing, and simply is not financially competitive with other areas."*

The fourth interview was negative on the administrative aspects of the program. She said program rules are often "crystal vague." No serious film or TV production company, especially a studio, will risk cheating on film incentive receipts. According to her, the benefit of the doubt, when small discrepancies arise, should go to the producers.[16] This person said they have had their reimbursements delayed because of mid-stream change in the rules involving declaration of Texas residency forms.

Texas does have advantages according to the producers: weather which is definitely on a par with Los Angeles and better than New York City, and great infrastructure in Dallas and Austin for TV series productions. And services are very good: tent rentals, tech advisors, tables and chair rental companies, heaters and A/C, dollies and cranes match or exceed those available to producers in Los Angeles and New York. According to the producers, this infrastructure is here because of the incentives program.

One of the producers said in the last three years there have been more casting agents, composers, production companies, a new special effects house, and downstream services (for example entertainment lawyers) moving to Austin and Texas because there is more work here than

[16] And it was pointed out that most producers and certainly studios have their they have their own internal auditing procedures,

elsewhere. In her view, film and television infrastructure may be nearing a critical mass here. She said there is no doubt in her mind that many of the productions were shot in Texas only because of the incentives.

As one person put it: *"For producers familiar with working in LA and NYC, there's 30% less stress working in Texas than in those cities."*

Duration of Incentives (How Long Should the Incentives Last?)

The faith-based producer thinks Texas needs to have an incentive program as long as other states have them--even if the program is relatively unattractive in general because of its low incentives and the inequitable nature of how they are structured. The others said the incentives not only need to be continued but improved.

One said directly that Texas may be on the verge of making a big mistake:

> *"The state is neglecting a true economic development opportunity. It could become the third largest market very easily (after California and New York) if it became proactive rather than being merely reactive. The industry generally loves Texas because of its locations and its low cost of doing business, not to mention its status as a right-to-work state."*

According to this individual, either Texas does not understand the industry or people have too much ego to compete.

What Would Happen If Incentives Are Reduced or Terminated?

Three of the four individuals felt the negative impacts could be substantial. One said it would send another wrong signal to the industry as well as having financial consequences:

> *"If the program is eliminated, it would absolutely kill the film industry in Texas. That would have a dramatic impact in terms of people being out of work."*

A second producer described his own company's plans:

> *"We are very interested bringing a complete infrastructure model, (similar to our current model located in Los Angeles) into the Texas market. Our final decision will be, in part, based on the various incentive programs offered by the states. Texas has some very significant advantages compared to other states: locations, business costs, extremely talented crews. However the incentive program is a major negative compared to other states and the Machete censorship raises all types of red flags for the industry."*

In contrast, the faith-based producer felt only the large blockbuster films and television series would be negatively impacted. Small and medium-sized productions would continue. Overall there would be a modest reduction in the number of titles and shoots within the state. He said Texas has always had a viable commercial industry, and periodic film and television shows.

Those would continue because of producers' loyalty to Texas, the incredible variety of possible locations, very good crews, and very good gear.

Necessary Changes/Potential Improvements

One recommendation was very pragmatic—hire more accountants and staff at the Texas Film Commission to improve payment processing.

A second person said the incentive should be increased to 20%, which would not break the bank but would remove a major plus for the other states. That combined with the state's advantages in the other important factors (weather, locations, crews, costs etc.) would be a major improvement. A second change would be to remove the inequity which provides greater incentives for larger productions. In his view, the Texas film industry "could be very much busier" if those two changes occurred.

Two film and TV producers mentioned the possibility of adding a new element to the Program which would enable additional funds to be secured through some type of repayment provision, similar to some types of royalties. In this instance the Incentive Program would receive a percentage of a film or series revenues or royalties if certain thresholds are reached. This would occur only after the primary investors had recouped both their investment and some additional profit. With this type of provision, if properly structured, the State of Texas may be able to replenish the fund or to increase the incentive payment pool.

Knowledgeable Individuals

Another set of interviews were conducted with individuals knowledgeable of the industries but not directly participating in the incentives. These individuals included two academics who are filmmakers, an entertainment lawyer who structures contracts for many independent producers, two directors for local government film commissions, and an economic development director representing a statewide association. Four of these individuals believe the Moving Incentive Program is critically important for the industries, one believes it is important, and one said he was more knowledgeable about other states' programs than the Texas program. A summary of answers to more specific questions are provided below.

Impact of Current Incentives (Are They Effective? How Important Are They Relative to Other Factors in Growing These Entertainment Businesses?)

According to the economic development official who performed site selection work for years in a prior position, *"I think it is a good little program which is necessary for Texas. You have to have incentives to play; otherwise it is just lip service about entertainment being important."* Everyone agreed that the Incentive Program has improved over the past and provides some advantages for Texas, but that the state still is at a general disadvantage because its incentives are less generous than elsewhere. One person said Texas now has a critical mass of workers whereas the state did not for a long time. He noted that when Kevin Costner shot a film in the Panhandle years ago, the crew came from Colorado because they were closer and better trained than the available Texas crews.

Others were more blunt about incentives:

> *"Only when Texas has a unique location, unique infrastructure is required, union costs are a major factor, or there is loyalty which transcends money, is an incentive not that important. The industry is very sensitive to the economics of incentives."*

> *"We have a lot of things working for Dallas: crew base, talent base (half to two-thirds of all SAG talent in the state; Texas has triple the SAG talent that New Mexico), non-stop flights from DFW airport to Los Angeles and New York, a very vibrant commercial and ad agency base, the Dallas TV series history, and an extraordinary variety of sets in the 4th largest city (and McKinney and Waxahachie get used). But we still are not attracting the very large feature films because of the incentive caps."*

> *"Producers will do anything to increase their budgets. And incentives are one of the three keys for a film budget, especially an independent feature: (a) Private investors—need to find initial investors; (b) Gap financing—usually need to take out a bank loan until a deal can be consummated with a foreign distribution company; (c) incentives from states."*

Even one of Texas' relative advantages, a large number of private investors willing to finance independent feature films, is diminished somewhat by the Incentive Program cash reimbursement:

> *"In terms of financing, Texas has both advantages and disadvantages. The primary advantages are the lower costs involved in productions and a relatively large number of private investors in independent features. (Texas has many wealthy private individuals who are familiar with oil and gas financing arrangements, and independent film financing is similar in many ways.) But Texas is at a real disadvantage because it cannot use a transferable tax credit approach like Louisiana. That is appealing to individual private investors particularly in states which allow the tax credits to be monetized by selling them back to the state for 85% of their value. This creates a method for individuals to cash out if they desire."*

The incentives also have very localized impacts. One person said having the "underutilized area" incentive feature is an advantage: *"South Dallas does get a lot of film business. "The Good Guys" used buildings in South Dallas for example."*

Incentives also are very important in areas along the Texas border in far West Texas and Eastern Texas which is adjacent to Louisiana. The New Mexico incentives, currently at 25%, have been especially troublesome for El Paso. According to an individual knowledgeable about El Paso, several productions (Courage Under Fire, Last Man Standing) were shot there when New Mexico had no incentives. Since New Mexico implemented its incentives, El Paso has not had a major production filmed in or near the city. Movies that scouted El Paso and then were filmed in New Mexico included the following (with their budgets):

- "The Missing" 2003, $60 million
- "3/10 to Yuma" 2007, $48 million
- "Transformers" 2007, $151 million (New Mexico and other places)
- "Appaloosa" 2008, $20 million (parts shot in Austin, most in New Mexico)
- "Burning Plain" 2008, $20 million (parts shot in Oregon)
- "Year 1" 2009 Louisiana and New Mexico
- "Observe and Report" 2009, $18 million
- "Book of Eli" 2010 $80 million
- "Dry Land" 2010, $1 million, set in Texas but shot in New Mexico (El Paso had 3 days)

The above cited productions entail almost $400 million lost production, mostly to New Mexico. And all but the first production was lost since the Texas incentives have been in place. According to this individual, the Texas incentive needs to be increased in order to compete with New Mexico's program, or West Texas areas will rarely be selected for new film and television productions.

In contrast, one university observer said incentives are important but not the only factor used by producers in making decisions about where shoot a production:

> *"Producers are looking for excuses to film in certain locations because they like the vibe and culture of those places. People are always looking for ways to work in Austin because they like to be in Austin. They like the talented crews and the area has other advantages but the incentives do not compare to those available elsewhere."*

Duration of Incentives (How Long Should the Incentives Last?
There was universal agreement, and the feelings can be summarized by the following four comments:

> *"Have to have some incentive when nearly all other states do."*

> *"They are a necessary evil, but Texas is still at a disadvantage compared to NM and LA. And the Michigan incentives prove how mercenary the industry is when locations and facilities are not key determinants in choosing a place to shoot. Texas crews are great but they can migrate to NM and LA locations when incentives become very important."*[17]

> *"When other states stop offering incentives, Texas can stop. Until then, we can't put the genie back in the bottle."*

[17] It was pointed out by one person that Texas' comparative advantage on crews is becoming smaller and may no longer exist relative to New Mexico. The crew base in New Mexico is now quite solid precisely because their incentive program has been so successful.

> *"Louisiana is our biggest competitor and regularly throws up 30-35% incentives but because some brokers and other middlemen are making money, ours does not need to be that high. But ours needs to be 20%. And we need to be smarter about going after projects which would not be here otherwise."*

What Would Happen If Incentives Are Reduced or Terminated?

All of the knowledgeable individuals were unanimous that reducing or terminating the film and television incentives would have major negative consequences. And they dismissed the argument that the industry would be alright because there would still be many films made in the state:

One said:

> *"Some producers are tremendously loyal to particular areas and will shoot there whenever possible if they can. They were in Texas before the incentive program occurred and they will be here for many years to come, with or without the incentive program. If the incentives were terminated, however, there would be a precipitous decline in the number of films shot here and in the amount of money spent on productions."*

According to one individual the impacts from termination would affect different parts of the state unequally. There would be no real impacts in West Texas because nothing is being produced there currently due to New Mexico's much superior incentives. And there would be only small impacts in some areas like South Padre, Amarillo, Houston, and Brownsville because there is not much current activity. The major metropolitan areas of Dallas-Fort Worth and Austin, as well as some rural communities would be severely impacted.

Another said:

> *"The indies will be made regardless of the incentive program. They were made prior to incentives, and they will be made in the future. It is the big productions that are at risk."*

According to this person, "True Grit," "Bernie," "Tree of Life," and some of the TV series were made in Texas only because of the incentives.

One of the film commissioners said it would be absolute devastation if the incentive program were terminated. According to this individual:

> *"We cannot even get in the front door without an incentive program. It is an absolute must. Getting "Dallas" to shoot in Dallas was touch and go, as we were competing with New Mexico and Louisiana."*

A fifth person said lack of incentives *"would hurt the industry significantly."* He said the easiest way to figure out what would happen if the incentives were reduced or terminated is to look at incentives from the perspective of a financial backer or a producer who has several choices in terms of states and incentives:

"What would you do if you were a financial backer and producer and you were choosing between states with incentives and states without an incentive or a very small incentive?" [18]

Necessary Changes/Potential Improvements

None of the individuals was totally satisfied with current incentives. One said more of the incentives should be allocated to smaller-budget films where the impacts would be greater.

A second thinks the incentive program should shift more toward permanent facilities/studios and away from one-off productions, which are temporary in nature. He said once the facilities and studios are in place, that will attract more productions and be another big plus in the calculations when producers are deciding where to shoot. This person cited Troublemaker Studio's "green screen" as a major step in Austin' film history which will have impacts for years to come. It required significant investment but will allow digital and animated productions which would otherwise never occur in Austin.

A third individual had a more modest recommendation for the Texas Film Commission (TFC). While TFC staff have attempted to spread the word with economic development officials in the past, more needs to be done as many communities need to be encouraged to pitch their communities for films and television. He said Texas has particular strengths/locations for "small town," rural, western, and even, antebellum locations.

In a similar vein, another individual said more needs to be done so that productions are more equally distributed throughout the state. [19] This person said one way of doing that would be to increase the percentage provided for underutilized areas. And consideration might also be given to providing a slightly higher incentive for those parts of Texas which touch states with higher incentives such as New Mexico and Louisiana.

One individual recommended reorganizing the incentive tiers:

"The tiered program is a harder sell. Do away with 'labor only' and return to 'total spending.' That would also incent vendors and attract new vendors to the state……We need to increase the incentive rate to 20 percent for feature films and television. A 10 percent rate is 'no man's land,' and the five percent rate is not worthwhile as it does not attract projects which would not be done here anyway."

This same individual recommended providing a slightly higher incentive rate if the community and the Texas Film Commission incentive program are shown in the credits.

Another recommendation was much broader in scope. This university filmmaker said he was a

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[18] This individual spent seven years with a large accounting firm performing site analysis.

[19] In New Mexico there has been considerable trickle down from Albuquerque and Santa Fe to places such as Las Cruces and Alamogordo. Part of the problem in Texas is that areas outside of Dallas-Fort Worth and Austin do not possess the infrastructure for longer productions. Pilot projects and one-time commercials may occur in rural and secondary areas but longer productions end up in production centers which have crew, studios, and equipment.

> *"…big fan of the video game industry and believes the incentives are too low. Austin's strong presence in video games should be nurtured further as there is increasing convergence of pc, video games, and film in the entertainment industries."*

A final comment pertained to the state's content clause. This person said the content clause *"…makes us look backward in Texas. And producers are worried they may be 'backdoored' when they submit paperwork for payment."*

Studios

A second set of interviews was performed with **studio executives**. As with video game companies, there was considerable diversity of opinions on many topics, although everyone believes it is crucial that current incentives be maintained, at a minimum. Two executives consider the incentives critically important to their studios, and two executives felt they are very important. A summary of answers to more specific questions are provided below.

Impact of Current Film and Television Incentives (Are They Effective? How Important Are They Relative to Other Factors in Growing Your Studio Business?)

Two of the studio executives addressed the Incentive Program initially from their perspective of their own productions. One said they have had four projects with incentives and had very mixed results. She cited the paperwork processing/verification procedures as a major problem. As a CPA, she said TFC should be auditing but they are not because auditing involves sampling. She said:

> *"The long delays due to the processing procedures requires producers to obtain gap financing, and then because of the unanticipated delay in receiving reimbursements, producers have to obtain further financing. Both the anticipated and unanticipated delays reduce the true value of the incentive."*

The second studio executive said they have had at least five projects, and the processing delays have been a problem. However according to this executive, the TFC has improved, and they are now doing a fantastic job, given their staffing limitations.

These two executives and two other studio executives concentrated most of their comments on broader programmatic, economic, and industry issues.

One executive said Texas is still at a distinct disadvantage compared to other states, despite the program changes in the last legislative session. According to him:

> "*All the surrounding states (LA, NM, OK, and AK) have better incentives than Texas. Everyone talks to the producers about where they will shoot but we have found accountants to have a large role, and accountants only care about money."*

To overcome the power of the accountants in determining where productions occur, his studio emphasizes (1) ease of production in Texas – permits, lack of regulations, general affordability; (2) non-unionized crews; and (3) the entire package of Texas incentives (incentive program, sales tax exemptions, hotel occupancy exemptions, and rental car exemptions, no income tax). Taken together, this studio estimates Texas' incentives as being the equivalent of 25-30%. Still he said they are at a disadvantage because the financial package needs to be better than elsewhere because studio execs prefer familiar locations (i.e. California if at all possible), and accountants like to compare only the formal incentives offered by states.

Another studio executive believes the existing incentives have worked. Three recent productions were shot at the studio ("Deep End," from 20th Century Fox; "Lone Star," from Fox; and "Prison Break"). All of these series had a majority of "interior" scenes which realistically could have been shot anywhere. The executive said the incentive program was crucial to landing all three productions.

One executive said the incentives, as currently structured, mostly keep productions from moving elsewhere, but have not proven that useful in luring business from elsewhere. He said part of that was because of the incentives and part was because there is excess studio capacity currently in the industry.

Executives at the fourth studio said the incentive program is tremendously important to them because price is a big consideration in their primary niche. Generally their strategy is to sell quality and product, while downplaying price. (They can never beat their primary competitors which are in Canada or overseas and have lower labor rates.) So they discount to the extent possible, and then hope the incentive amount will prove sufficient to keep them competitive.

They have also won business because of the revised incentive program—the change in the rebate formula that increased incentives for films over $5 million proved determinative for a new project with a client for which they had performed work but which they thought they would lose because of incentives/costs.

Duration of Incentives (How Long Should the Incentives Last?

Every executive said film and television incentives are vital, as long as other states have them. A couple executives believe the incentives are a necessary evil, and frankly they would like states to dispense with incentives so there is a level playing field. Until that occurs, however, they must be continued. One executive views the current program this way:

> "*Realistically, as long as other states and other countries are providing real financial incentives, Texas must. The Incentive Program is one element of a total package which is used to compete with locations on the west coast, and sometimes on the east coast. It is imperative that a complete toolbox be available, and the incentive program is one of the key tools in our toolbox."*

What Would Happen If Incentives Are Reduced or Terminated?
Studio executives believe the consequences will be very severe because the industry has become extremely sensitive to costs in recent years. One studio executive said simply:

> "*Incentives count really big in decisions about where to shoot.*"

Another executive provides a more detailed explanation:

> *"While film has traditionally been "location driven", the cost factor can be the determining issue when multiple states could be used. Incentives are particularly necessary on the bigger production series, which last for years. Producers are always focused on costs and Texas has advantages on cost of crews and cost of infrastructure. The current incentive program helps offset some costs as well—if it goes away, many productions will follow the money."*

According to this executive, if Texas cancels the incentive program, and productions start moving away, the crews will follow. That means the good crew base in Texas will no longer be available for productions that do remain here. In turn, that outflow of talent creates a downward spiral which is hard to reverse.

Another executive said competition from Louisiana and Georgia is particularly fierce right now, and many people she knows are going to Georgia—productions are attracted by the combination of their incentives and improving crews etc.

Three executives referred to possible ramifications on their businesses. The first said their studio is raising funds from Texas investors for a series of new films which they will make and for which they will decide shooting locations. If the film/television incentive is diminished or terminated, she said *"we can always open up small studios in Canada, or go next door to LA or NM; therefore, any changes in the incentive program will affect our decisions."*

A second executive said:

> *"It would be devastating to our studio, the local crews (over a 1000 people), our vendors, and others if the program is altered."*

Necessary Changes/Potential Improvements
Two of the four studio executives suggested that funding be allocated for film and television ventures which provide more permanent employment. Neither thought a major film studio could be attracted in its entirety to Texas. Yet both thought smaller companies might be willing to relocate. And another option would be to provide unique incentives to a major studio which promised to make a minimum number of its productions (or the majority of its future titles) within Texas in forthcoming years. The intent would be to provide more emphasis on permanent jobs in film and television rather than on temporary production jobs.

Three other future changes were cited by the studio executives as being beneficial for their businesses:

- Program authorization and funding for more than two years as the current approach creates uncertainly in making investments.

- Supplemental funding for organizations that provide internships to college and high school students seeking training in film and television.

- Implementation of the Film Enterprise Zone program, which would provide another set of incentives for at least one (and possibly three) of the studios.

Vendors

A number of interviews were conducted with representatives of companies that sell services to the moving image industry. While vendors themselves do not apply for incentives, much of direct spending on a commercial, television series, or film production is for non-labor services such as food and catering, camera and lighting rentals, transportation, and other services.

Impact of Current Incentives (Are They Effective? How Important Are They Relative to Other Factors in Growing Your Business?)

One executive whose firm supplies the industry with equipment said that the incentives provide the opportunity to build a local (or statewide) crew base:

> *"Spreadsheet types forget that a movie set is a dangerous place for costs. If your crew is not professional and experienced, delays can be very costly. Texas is now enjoying an advantage over other higher-cost areas because of its incentive program and experienced crew base."*

Another vendor representative said that a big plus for the moving image industry turns a criticism on its head:

> *"We get criticized because the moving image industry is transient by its nature and does not provide 'permanent' jobs. But a transient industry is why many states are interested in TV and film production. New Mexico is committed because the film industry is easy on water resources. Permanent industry requires hard infrastructure improvements. Film is ideal for many regions because it doesn't require permanent infrastructure improvements for power, streets, sewers, or water."*

What Would Happen If Incentives Are Reduced or Terminated?

One vendor said the history of incentives shows what will happen:

"Before incentives, Texas provided a low-cost place to shoot TV commercials, long-form TV shows, and films. Business was decent. Then Canada started incentives, and the race was on. Business dropped in Texas until incentives were started, and now the industry is recovering."

Another vendor, who works primarily for TV commercial producers, said her firm would still see work from ad agencies even without the incentives. Proximity to larger production companies and ad firms is more important factor than the incentive program. But she added, *"If ad agencies sprout in Michigan because production is incentivized there, my company will locate there too. 'If you build it, they will come.'"*

Another said the consequences would be severe:

The Incentive Program has kept our firm here in Texas! We would be forced to reduce staff if the number of projects drops and if incentives are removed."

And another vendor who works with production companies said some producers don't always want to report their projects and the amount of money they spend because they're afraid of losing business to competitors, so they don't take part in the Incentive Program.

Necessary Changes/Potential Improvements
Vendors identified a variety of improvements:

"Need to speed up the reimbursement process. Guarantee payment within a certain time period, perhaps within a year is reasonable."

"The $1 million minimum is too high. With everything going cheaper, we need to attract more low-budget projects with a lower minimum for incentive program." [20]

"Need more advertising about Texas incentive program."

"Do like they do in Georgia, with the 'Georgia Peach' symbol, and add another 10 percent to the incentive if a production puts a Texas logo on the product." [21]

Video Games

One set of interviews was performed with video game executives. There was considerable diversity of opinions on many topics, although everyone agreed the current incentives should be maintained, and most felt they needed to be enhanced. In general, one executive felt the incentives were critically important, two thought incentives were very important, and two said

[20] Note that the $1 million minimum figure is no longer in effect. Since 2009, the minimum has been $250,000.
[21] The additional funding comes from the state's tourism budget.

the incentives were unimportant for a variety of reasons. A summary of answers to more specific questions are provided below.

Impact of Current Video Game Incentives (Are They Effective? How Important Are They Relative to Other Factors in Growing Your Video Game Business?)

One executive said the video game incentive is very important to them in recruitment. They have found it to be effective in convincing potential employees from both the west and east coasts to move to Texas.

Another executive from a small company said the incentive was relatively unimportant compared to other factors more crucial to the success of his business:

- A local workforce that is talented and non-unionized, which lowers his costs;
- A lower cost of living and lower housing prices in Austin, compared to Seattle, California, and New York, which facilitates recruitment of creative talent—one of his favorite phrases is: "*Austin--Where you can afford to be creative;"*
- Nearby clients which allows face-to-face interaction, a huge plus in the industry; and
- Texas' general business climate is favorable and very important for his company.

A third executive who runs a large studio said video games are basically:

> *"….a fashion industry which is quick moving and very dependent on consumers' whims. In the short run, how well a game does (if it is a "hit") will determine how big a studio is in any one location, and that determines to a large extent where new products will be developed. In the long run, the key determinants in priority are: engineering talent, artistic talent, affordability, regional culture, and finances, with one part of that being incentives. Austin stacks up pretty well on some and excellent on affordability."*

He mentioned that industry costs have increased 100% over past five years while sales have increased only 40%, which is one reason firms are seeking to leave California—that state's tax structure is less favorable than Texas' and California's cost of living is too high for many who work in the game industry. According to this executive, the company's CFO recently sent an internal memo to staff about what the company will be receiving under the Texas incentive program and said incentives will be a factor in future decisions about where to initiate development (new games) projects.

Another senior executive at a large studio said the current video game incentive approach "is pretty useless." He said (1) The 5% amount is insignificant, given the amount of paperwork involved; (2) They are uncertain the refund will actually occur because the state's budget cycle is two years and their game development cycle is four years—therefore they discount the likelihood they will receive a refund; (3) His company was skittish about the possibility of their confidential information being obtained through freedom of information requests; (4) The incentive is really based on film production cycles and film shooting and not related to games at all. (5) The game industry is a "big palette," with extremely diverse in markets, distribution channels, financing needs, and production cycles. The “one size fits all” incentive is inappropriate.

Duration of Incentives (How Long Should the Incentives Last?)
One executive said 2-5 years. Another executive said it is important to continue (ideally to expand) for the following reasons: (1) The video game industry is very much in its infancy—the equivalent of the early talking pictures immediately after the silent picture films. Technologically there is so much more that will be forthcoming. Hence it is important to support the industry. (2) Also as long as other governments are actively soliciting and poaching video game companies, Texas needs a program; and (3) The gaming industry in Texas is growing slower than the industry as a whole.

A third executive strongly asserted that continuity was essential:

> *“Incentives should be viewed as a longer-term program for an industry, not as short-term aid for projects. Montreal did not show up on anyone’s radar before they offered incentives and they have continued them through several economic cycles—gaming is a major industry in Montreal now.”*

Another put it a slightly different way:

> *“Game development is a ‘Team Sport’ which works best when developers can interact face to face. Therefore, incentives need to be in place sufficiently long to create a cluster of businesses and attract a pool of creative talent.”*

No one said the incentive should be terminated immediately.

What Would Happen If Incentives Are Reduced or Terminated?
There was considerable diversity in the responses, and the executives often distinguished between how the change would affect their firm and how it would affect the industry within Texas.

One said if incentives are reduced or terminated, it would have no impact on his firm. However, it would definitely hurt relocations into state, suspend expansions of existing larger companies, and probably reduce future acquisitions of local companies by companies elsewhere.

Another executive said program termination would have minimal direct impact on them because of their large client base. Yet, if the big video game companies shrunk their operations in Texas, then they would suffer.

For another company, termination of incentives would be a very strong negative sign for current employees and longer-term would affect their expansion plans. The executive said the current incentive program, despite its faults, is viewed as a:

> *"…big plus and a vote of confidence in their industry by the State. Even if companies do not participate in the incentives, they see the program as being very pro-industry, which is important for an industry that considers itself very misunderstood and underappreciated"*

A second executive provided a similar view that termination would be *"….a symbolic blow to the gaming industry and definitely would slow expansion in this state, given that some other states and Canada already have better incentives."*

Another executive said smaller game companies in the Dallas-Fort Worth Metroplex would likely move to Shreveport if the Texas program was terminated. While the preference of his own firm is to expand in Texas, they have been contacted by jurisdictions such as Nova Scotia, Cayman Islands, Louisiana, Vancouver, and Isle of Man. And because of the extraordinary incentives being offered by Montreal, they are currently looking at opening a studio there. Termination of the current Texas program would make the Montreal option very attractive. [22]

An executive at one of the largest studios said the current incentive program is not nearly as good as elsewhere but it is a positive factor. He said: *"Incentives make the area more attractive for some key decision-makers, such as a CFO, even if the developer talent is unaware of the incentive or unaffected by it in their minds."* While Texas certainly would continue to have game companies because of affordability, talent, and other conditions, most games can be made anywhere, unlike other industries which need unique locations or resources.

Necessary Changes/Potential Improvements

Most executives readily identified limitations in the current program and several offered detailed improvements.

Timing of the incentives was singled out by two large video gaming executives. Both said the refund needs to be provided **<u>during</u>** the development process, not at the end of the process. (One of the executives said development phase funding can be designed to work, as that is Michigan's approach.) One executive said the incentive is essentially a "ship bonus" to the company. He suggested the funds be provided sooner, perhaps similar to milestone payments. In his most recent game, having funds earlier would have affected their decisions at several critical points when they had to decide how much to invest. As one executive stated:

> *"To make more and better games in Texas, the incentive needs to be provided during the development phase. "*

A second theme was how the available funds should be targeted. Several said financial assistance should be used to lure divisions and teams of people to Texas, rather than being oriented solely

[22] According to this individual, many economic development officials from jurisdictions show up at game conferences but rarely are they from the State of Texas or a Texas city.

to specific projects. [23] Two executives said both big and small game companies should be targeted by the incentives <u>but the needs of these companies are different; hence the incentives need to be structured differently</u>. Small companies worry primarily about cash flow while large companies act as their own banks and are focused on P&L.

A third theme is that growth in the Texas video game industry is due to other factors besides the incentive program—if the incentive were increased, the effects would be more rapid growth. One executive argued that Austin is a potential site for divisions leaving California because of its affordability, not because of the state's incentive program. He said:

> "*Talent is here. Facilities are here. There is a good business climate and it's easy to do business in the state and city. We do not need incentives as large as other states but just some that help and also show Texas is interested in the video game industry."*

Another executive put it slightly differently:

> *"The video game incentive is one element in a virtuous feedback loop. Austin is now on the map and the incentive program is a positive, although not nearly as important as the city's culture and its affordability. If the incentive program continues, Austin is likely to become a bigger player nationally, with more talent moving here. That will lead other game companies to locate here, feeding the cycle again."*

A third executive was more blunt: "*Texas needs to increase the percentage payout to between 10 and 15% to make it worthwhile, and to equalize it to film. And there needs to be some guarantee that funding will actually be available for games with long R&D cycles."*

Additional changes which are needed or would help their businesses included:

- Altering the current 30-day submission window to 60 or 90 days—A short 30- day window is inappropriate for game companies because of the large number of revisions made in their titles, contract amendments, and so forth.

- Receiving more public information about participating companies—one executive said he would like to know which game companies are participating so he can send the information to existing and potential clients from out of state about possibly participating if they set up a local office or moved to Texas.

- Changing federal immigration laws so they could bring people who they regularly work with from Chile, Brazil, and Canada.

- Providing some basic funding to grow the next generation of companies and sustain the industry--financially supporting development of an incubator or helping smaller video

[23] Rhode Island lured a major studio to Providence, and Utah attracted a major studio from California.

game companies to relocate to Texas by targeting them as a high priority for financial assistance.

- Smoothing administrative procedures—One firm has had experience with incentives in both Louisiana and Montreal, and both worked more smoothly than in Texas.

Chapter VI. Qualitative Information: Case Studies

Four cases are presented in this chapter. Two describe the beneficial experiences of small rural Texas communities: Granger and Smithville. Two additional cases describe impacts on two private companies. These cases illustrate the widespread impact of moving image industry production in all types of locations (rural, suburban, and major metropolitan areas) as well as on different companies in Texas.

Case Study Profile:

REEL FX ENTERTAINMENT

Overview

This Dallas-based animation/visual effects studio began in 1995 and now employs over 220 people in its 75,000 square-foot Dallas facility. An additional 30 employees are housed in a smaller facility in Santa Monica, California. In general, Santa Monica employees concentrate on attracting projects and business, much of which is executed in Texas. REEL FX performs animation in theatrical/feature computer generated (CG) films, direct to videos, live venue installations (theme parks, fixed venue), episodic, virtual worlds, video games, music videos, and national television spot production. The company works with most of the major studios in the industry including Disney, DreamWorks, Warner Brothers, The Weinstein Company, Fox, and Sony, among others. Because executives from these companies usually have never viewed Texas as a serious contender for animation/visual effects production and original IP content, REEL FX regularly hosts executives from these major studios and production companies in Dallas to change their perspectives.

Importance of Incentives

Senior executives at REEL FX believe the incentive has been critical to the animation, film, and television industries in Texas. They also believe that the incentive has enabled them to attract projects to Texas which would not have occurred in the absence of the incentive. In the aggregate, they estimate these "wins," which are due in large part to the incentive, total more than $25 million.

The following represent a sampling of these wins:

- A 22-minute animated holiday special on a major network—REEL FX beat 8 studios internationally for a production based on the characters from one of the top 10 CG animated features of all time. The state incentive and some local incentives for travel kept the company competitive, and were an important factor, along with an animation test and deep relationships with a variety of executives and producers, that secured the business.

- Several very high-profile animated sequences for another holiday special--Incentives played a key role in tipping the project toward them.

- A series of animated shorts based upon the Looney Tunes characters—Incentives were important in a first round, for which they have been nominated for best animated short categories in several major awards. Incentives were critical in a second round of three shorts that will be featured in front of key theatrical movies in 2011.

- Major international animated production--Reel FX recently completed work on a production for a major international company as a follow-up to a similar production in 2010. Both were released theatrically in targeted international markets and on DVD domestically. The incentives were important with the most recent series and important in the earlier series by helping them beat competing studios in Canada, India, and Korea.

Unfortunately, Texas' incentives still are considerably less than those provided elsewhere. According to REEL FX, Canada has the most aggressive and competitive program that provides a 40% incentive and allows it to be used literally as a co-funding tool. Because of the Canadian incentives, REEL FX executives said they lost an animated feature film to a Canadian facility and another major project funded by the Chinese.

Other examples of losses due to the inadequacy of the Texas incentives were:

- Multiple shows over 10 years for a very high-profile and very significant series of DVDs--REEL FX beat 10 studios worldwide to become one the three final contenders and then lost when an overseas studio significantly cut their budget because of incentives.

- A series of ancillary content (commercial and DVD work) for a major internationally known company--These went to India after budget reductions.

- Two CG episodic television shows for a new network (initial order of 26 episodes per brand). After being contacted by the client, REEL FX bid on a higher-end show and a lower-end show. They lost both bids to studios in Japan, Korea, and Canada. With this particular network and for the animated episodic business as a whole, the overall economics simply cannot be overcome by higher quality or higher efficiency--the amount of incentives greatly determines who wins in this cost-sensitive category of the business.

In total, REEL FX attributes their losses due to better incentives and pricing from non-US studios at more than $91 million.

Additional Information/Implications of Case

It would be easy to discount the REEL FX losses if they had a reputation as submitting bids without regard to price. Generally speaking they are a price-competitive studio for animation and visual effects because of their innovations and efficiencies over the years. Texas animation jobs have not increased significantly in recent years but there is a significant opportunity for the future. When it comes to animation/post work, REEL FX believes they are comparable to major animation studios like Blue Sky and Pixar in creating original content and service work. Both of those studios employ more than 1,000 people, and REEL FX could grow to that size as well.

For this to happen however, the current Texas incentives will need to be maintained, and ideally, increased. According to REEL FX, the strong incentive programs in Louisiana and New Mexico dismantled much of what (talent, artists, production companies, resources, and crew) had existed previously in Texas. The current incentive program has stabilized the situation and reestablished Texas as a competitive location in which to produce animation and visual effects.

Case Study Profile:

GRANGER, TEXAS

Overview

Granger, Texas is a community with a population of approximately 1,400, an hour northeast of Austin. Granger has a long history of being used as a film and television location:

1999---“Trespasses”
2003---“When Zachery Beaver Comes to Town” (Disney)
2003—“The Texas Chainsaw Massacre”
2006—“The Texas Chainsaw Massacre: The Beginning”
2007—“The Return”

Also the community was used in the History Channel’s documentary on The Newton Boys and a very small segment of Spike Lee’s, 25th Hour. In October 2009, Granger municipal officials were informed the community was one of two finalists as a location for True Grit and were asked if they wished to be considered further. After indicating their desire to be a location, they were subsequently selected over another community for two reasons: (1) Granger has a number of vacant lots next to buildings that allowed adjacent sets to be built; (2) Granger has train tracks nearby the primary location, which are an integral part of the opening scenes.

According to the Texas Film Commission, the sets in Granger were built at a cost of more than $1 million to resemble Ft. Smith, Arkansas circa 1880. Seven days of filming occurred in Granger, among the 52 days in Texas. The Texas Film Commission said 300 Texans were employed as crew on True Grit.

Impacts on the Community

Interviews were conducted with the Mayor of Granger, Scott Murrah, a member of the City Council, Rita Marburger, and the President of the local bank, Dan Johnson. The Mayor of Granger said the filming experience was both economically beneficial and a positive experience for the community. The economic impact came at a very opportune time as several businesses in the small community closed and “the economy hit us pretty hard” according to the Mayor. He said Paramount:

- Poured new sidewalks;
- Repaired doors and windows in both private properties and in a municipal building used;
- Negotiated a lease for a vacant lot owned by the municipality;
- Adhered to municipality’s prohibition about cutting bricks in an historically designated area; and
- Leased police vehicles to the crew and charged them for water usage.

The largest municipal benefit involved burying utilities in a segment of the community. The Mayor, a public engineer familiar with this process, estimates the cost to Paramount for that as between $150,000 to $200,000.

In addition to these specific tasks, Paramount agreed to undertake most of the major work themselves rather than provide funds to the municipality. If funds had been provided to the municipality, all of the work would have required bidding, which may have led to awards to companies outside of the region.

According to the Mayor there were no unexpected negative surprises. While he wished that more local residents would have had the opportunity to be “extras”, the Granger Chief of Police took vacation from the city and became the set’s chief of security during the actual film production.

A second interview was performed with a City Council member who also is Director of the SPJST Hall (Czech fraternal organization). This facility, shown in a nearby picture, was used extensively in the movie on external scenes and also as a staging area for other activities.

According to this person, Paramount’s crew repainted the building, refurbished it to some extent, and rented it for a lease payment. She said the crew did a very good job in returning things to their original condition or leaving them according to the wishes of the property owners—many owners whose buildings were given signs for the production decided to retain those signs afterwards. She said the large majority of residents were very supportive, despite some complaints from individuals about being unable to access the post office according to their daily routine. And one potential concern she and a number of others had about landscaping for the scenes, was handled very professionally by Paramount. According to this city council member, “most everyone ‘would be excited to do it again.’”

The President of Granger National Bank was an extra in the movie and the bank itself was shown. As others in the set area, he arranged a lease payment for the four months during which the crews were in the community. Also, he negotiated a refundable deposit in the event lease requirements were unfulfilled, and in fact, crew decided not to replace shrubbery and to forfeit a portion of their deposit. As some other owners, he chose to retain a set improvement--awnings which had been added to their building.

As an example of how Paramount attempted to minimize disruptions to the businesses, he said they provided golf cart shuttles for customers to/from the bank when access was restricted. Because of that, he had almost no complaints from his customers.

According to the bank president, each of the property owners downtown negotiated individual lease payments, usually monthly leases for the four months of preparation, filming, and post-filming tasks from late February 2010 to May 2010. He believes everyone thought their leases were fair as he has not heard any complaints from anyone.

According to the bank president, Paramount not only spent more money than previous productions had, but they also made an attempt to spend more locally. Besides the property owners, the other main beneficiaries were the two convenience stores, one grocery store, small eateries, and lumber company which sold most of the wood for the sets. In contrast, prior movies always had catering brought in and made few local purchases—often bringing in their own gas trucks for instance. And Paramount used more carpenters, some of whom were local. Since the movie opened, the Bank President said they have seen some tourists walking the streets with cameras.

<u>Additional Information/Implications of Case</u>
Granger has now qualified to be designated as a Texas Film Friendly municipality. This enables information about the community to be included in a database at the Texas Film Commission. In retrospect one of the three interviewees wishes the community had been more prepared and had had more experience in working with industry crews. Specifically this person said it would have been helpful if they had some idea of what is normally considered feasible and what would be unreasonable to request. None of the three officials believed, however, the film producers had taken advantage of them or anyone else in the community. On the contrary each felt they and everyone in the community was quite satisfied. And the community would welcome, and indeed, is seeking commercials and television shows. To be more prepared for the future and to demonstrate their desire for additional productions, Granger has passed a municipal ordinance.

Case Study Profile:

SPIDERWOOD STUDIOS

Overview

Spiderwood Studios is a full-service motion picture, music, and animation facility fewer than 30 minutes from downtown Austin, 15 minutes from the Austin Bergstrom airport, and near both a secluded luxury hotel, and the forthcoming Formula 1 racetrack. Located on 200 beautiful acres of back lot (link below), Spiderwood currently has four sound stages, a 24' X 100' Cyclorama Wall, and sufficient office space to house all kinds of productions. Current studio services include:

Edit Bay
Sound Mixing
Music Recording
ADR
Sound & Video Services
Set Construction
Location Packages
Concept Design & Artwork
Visual Effects
Heavy Equipment Rentals
Wireless Internet
HVAC
Storage Space
Telephones
Truck Rentals
RV hookups.

Spiderwood's current primary production facility can handle large productions and is shown in more detail at the following website:

http://www.spiderwoodstudios.com/facilities/building-b.html .

Features of its back lot and the different types of terrain among the 200 acres are shown at:

http://www.spiderwoodstudios.com/facilities/back-lot.html .

A comprehensive virtual tour is available at:

http://www.spiderwoodstudios.com/spiderwood-virtual-tour.php .

In addition to servicing other productions, Spiderwood Studios encompasses Spiderwood Productions and Spiderwood Animation. The production company concentrates on live action feature films and is developing a high school comedy that could become a TV series. Spiderwood Animation has finished a 15-minute, three-act animation short titled "Flight of Magic." Animators, riggers, and modelers, as well as editors at the edit bays and sound engineers for musicians and voice over were employed by Spiderwood Animation. And with a render farm on site, it was unnecessary to send rendering production elsewhere. Spiderwood Animation has a goal of proving that animation, from beginning of a conceptual story to the end of post production, can be performed in Texas at the same or higher quality and at lower cost.

Impact of Incentives

Spiderwood has accomplished a significant amount since opening in spring, 2009. As of January 2011 Spiderwood Studios has had:

- 11 Commercials
- 7 Feature Films

- 2 TV Pilots
- 2 Music Recording & Mastering Projects
- 2 Music Videos
- 1 Instructional Video
- 1 Web Advertising Video

Among the productions and their reasons for choosing Spiderwood were:

- One company's need for wire stunts and visual effects using the facility's Jumbo Cyclorama Wall.
- Another company took advantage of the vast back lot to shoot its music video.
- A band found Spiderwood to be convenient for shooting their music videos as they drove through and onto their next show.
- Productions that came to Texas for their first time because of the studio's abilities with both stages and set construction.
- Productions found Spiderwood to be convenient with clients from Houston and crew from both Los Angeles and New York.
- And several productions selected Spiderwood because the stages met their needs and producers and directors from out of state liked the convenient location.

While activity has been significant, it has been less than anticipated. Texas' incentives still are less than other states' incentives, putting them at a disadvantage when economic considerations are the most important criterion.

Two productions were lost specifically because of better incentives elsewhere. The first was a highly popular game show, which ended up in Orlando Florida. The second, a reality show, was eventually produced in Atlanta Georgia. To add to the disappointment, both shows would have been recurring projects, and both would have brought continuous work to the studio and numerous steady jobs to Austin's economy.

Spiderwood Studios has relied extensively on commercials since its opening. These commercials have employed more than 50 people each time.

Future Plans

As impressive as the current Spiderwood Studios is, it will become much more impressive if the long term site plan becomes a reality. (Please see nearby image.)

As resources permit, the next building to be developed would be geared to television game shows and television series.

Whether any of the long range plan moves forward will depend in large part on what happens to the Moving Image Industry Incentive Program. According to the studio owner, Tommy Warren:

"We bet big on Texas—I've invested millions in the land purchase, land clearance, building construction, studio equipment, and animation equipment (render farm for post-production). And we have plans to build out the property with a series of additional buildings. If the incentive program were reduced or eliminated, this would leave us at a further disadvantage."

SPIDERWOOD Studios

Case Study Profile:

SMITHVILLE, TEXAS

Overview

Smithville is a small town of 4,500 on the Colorado River about 45 miles southeast of Austin. In the late 1800s, the city incorporated when the Missouri, Kansas, and Texas railroad bought the local line and built a central shop in Smithville. Almost overnight, Smithville became a railroad town, and for years its economy revolved around steam engines, passenger train travel, and retail commerce. The train depot was the heart of its quaint downtown. Today, as with many towns its size, Smithville's largest employers are its school district, the local hospital and a cancer research center, and the city itself.

In 1997, however, the motion picture industry came to town when the producers of "Hope Floats," a romantic drama starring Sandra Bullock, arrived to film on location. The mayor at the time, Vernon Richards, sold the rights to use the town name in the film for $1, if only to save on the cost of repainting the local water tower with a fictitious name. Mayor Richards could not have known that the decision to use Smithville's name in "Hope Floats" would become such an important investment in Smithville's future. Hundreds of the movie's ardent fans now come to town every year to see the house where many of the movie's interior shots were the filmed. Some come to get married in the town suffused with the romance the film created. All of them walk the downtown shopping district, stay in local B&B's, and eat in Smithville's restaurants. The Chamber of Commerce estimates that 30 percent of all the traffic into the city's Visitor Center is a result of "Hope Floats" and other movies filmed locally.

Smithville's leadership learned from the experience with "Hope Floats" that a town its size can create an economic development strategy around attracting film, television, and TV commercials to town. They joined the Texas Film Commission's "Film Friendly" program, which trains local economic development professionals how to negotiate with producers, prepare the town's residents to deal with the inevitable disruptions that filming brings, and market their town more effectively to film makers.

In discussions with local city leadership and business owners, it is immediately obvious that everyone credits the state's Moving Image Industry Incentive Program with the upswing in local film activity in Smithville. The lower minimum budget figure a production needs to spend to qualify for incentives, residents believe, has helped local business. Just in the last three years and directly overlapping with the state's expanded moving image industry incentive program, Smithville has attracted 18 films, TV series, and TV commercials, both low- and big-budget, including:

- "Fireflies in the Garden" (2008)
- "The Tree of Life" (2010, directed by Terrence Malick, $779,000 in direct spending in Smithville, city sales tax increase of 17% over the same time period the year before)
- "Bernie" (starring Jack Black, 2010)
- "Five Time Champion" (2010)

- “Beneath the Darkness (starring Dennis Quaid, 2010)
- “Cell: The Web Series (2010 TV series)
- “Doonby” (starring John Schneider, 2010)
- Valero Energy (TV ad)

Embracing, and Organizing For, The Film Industry

Smithville has a well-coordinated team that includes a local film commissioner, the local Chamber president, and city hall officials who work together with location scouts and film producers. The team hosts monthly events for residents on film production topics that have proven extremely popular. Recent topics have included how to present well in a casting call, and how to prepare and market your house for rent during a film production. One of Chamber President Adena Lewis’s goals is to celebrate film productions and to let producers and crews know that Smithville appreciates their presence in town. “We try to have a public kickoff party at the start of every production, and a wrap celebration at the end of production, for residents and crews to come together as friends. They are great community-building events,” says Lewis.

Marissa Garrison, CEO of Eleven: 11 Films, based in Austin, said her young production company was close to signing an agreement for a low-budget film that would include a one-day shoot in Smithville. “Filming in Smithville saves us money because it’s easy to scout locations here, they are knowledgeable about film production here, they are great about returning e-mail inquiries, they are professional, and everyone is so easy to work with.” Garrison said that her film’s one-day shoot will spend about $750 in Smithville on things like catering and food, gas for generators, a little bit of set construction and remodeling, and whatever the production assistants need to buy at the local hardware store at the last minute.

Economic Impacts During Production

Discussions with the town’s leadership and others reveal multiple direct and indirect impacts from filming in town. Mayor Mark Bunte says that Smithville’s citizens occasionally used to object to the disruptions or doubt that spending on film productions in town benefitted very many people. “But after hosting one or two productions, everyone quickly realized that productions, even small ones, buy supplies from lots of local vendors. One friend of mine, who used to complain about street closures and the occasional stunt explosion, said that last year he sold more propane to a film crew than he had sold the entire year prior. Now he sees the benefits.” Added the Mayor, “Every single production leaves behind a positive impact on our town. And it started with ‘Hope Floats.’ All the signs that ‘Hope’s’ art department created were auctioned off to support our local Recreation Center.”

City Manager Tex Middlebrook says that the film crews are extremely well-behaved when productions come to town. “They are self-policed,” he says, and are “very good visitors.” Another reason he appreciates local film production is that the city doesn’t have to absorb many additional costs related to production. “Producers know that our ‘can do’ attitude, like moving utility lines quickly or burying a power line fast rather than calling the utility, saves them money. They even hire our off-duty police officers for security, so we can keep that expense off the city’s budget,” he says.

Chamber President Lewis said that First United Methodist Church in Smithville was given several thousand dollars per month for seven months for the use of its kitchen and dining room to feed the crew on "Tree of Life," and every Saturday night and into the early hours of Sunday, "the caterers and other production crew would fastidiously return the hall to its original condition in preparation for Sunday services. They were very good tenants."

Sallie Blalock, who owns Katy House B&B with her husband Bruce, believes that the filming of "Doonby" in Smithville brought new customers to her business last year and dramatically increased her revenue. "Between April and June 2010, we had 7-8 percent monthly increases in revenue over the same period the year before, so we definitely benefitted from the filming. In a down economy, this was huge for us."

Patricia Wolf runs a wholesale clothing company from her Main Street shop that she says has been tremendously affected by the film business in Smithville. "The costume designer for 'Tree of Life' found out I could make 30 period costumes in a hurry, so over Easter weekend last year, my staff of seamstresses and I worked all weekend to meet their shooting deadline. They could have spent tens of thousands of dollars to make them in California and had them shipped to Smithville and still not met their deadline." Wolf says that as word of mouth has spread that she can provide costume design and manufacture for local films, not only has her costume business for films increased, but it has increased her cachet with her online customers, as well. What is more, "Film producers now know that I have a network of people in the biz on whom I can call to supply costumes, jewelry props, whatever they need," she says. Speaking about the recent recession, she says "the film business really helped keep me afloat during the economic downturn, and I attribute the increased film business in Smithville since 2008 to the Incentive Program."

<u>Post-Production Economic Impacts</u>

City Manager Middlebrook appreciates how involved actors become with local institutions, like Smithville's Police Department. "When Dennis Quaid, who was in town filming 'Beneath the Darkness', heard our police department was having trouble with its annual Blue Santa toy drive last year, he offered to play a benefit concert with his band at our local American Legion hall to raise money. We ended up with more toys than we've ever seen." Similarly, Brad Pitt, in town filming "Tree of Life," signed a firefighter's helmet that was auctioned off at the Volunteer Fire Department's annual fund raiser.

Just in the last three years, as filming activity in Smithville really accelerated, a local resident launched First Act Academy to provide acting lessons to children and adults who want to be ready for the next open casting call. Chamber President Lewis has also created a list of 35-40 local properties for rent during shoots, listed on reel-scout.com, so crews can remain in town.

Troy Steuer, who owns a restaurant on the edge of town, epitomizes how strongly Smithville business owners have embraced the film and TV industry. He has purchased a number of props, signs, and other mementos from films that were produced in town, and he has them on display in his restaurant. "For my business, the impact of local film production," says Steuer, "is felt long after a movie wraps and then opens. Yes, I do a little bit of catering during some movie projects, and that's good for my business. But most of my regular customers and visitors love the fact that I have movie memorabilia on my walls. Movies have given Smithville an identity, a reason to come to town. If it is true that movie producers need an incentive to come to Texas, then my business will definitely suffer without the film incentives."

Merilee Albers, owner of Feather Your Nest, an antique and collectibles store on Main Street, said that the prop master on "Beneath the Darkness" rented $1000 in items from her store last year when they were filming in Smithville. "But the real impact came after filming," said Albers. "I was able to sell all of the pieces they had rented simply by advertising the fact that the pieces had been used in the filming of the movie."

<u>Moving Image Industry Incentives and Rural Texas</u>

Smithville Chamber President Lewis argues that the Texas Moving Image Industry Incentive Program is having a large positive effect on rural Texas towns like Smithville. Says Lewis, "It is true that many of the recent projects we've hosted were small-budget or independent films that did not qualify for incentives. We view these projects as incubators for larger incentive films. We practice as a town on the small films to be ready for the big ones. But clearly, if the incentive goes away, the crews that follow big productions will leave the state, and the small films that count on Texas-based crews can no longer be done. The other reason we support small-budget film producers in Smithville is that you never know when a director of small films will hit the big time, or tell someone else about Smithville and how comfortable it is to film here."

VII. Conclusions and Possible Actions

Key Findings

The Texas Moving Image Industry Incentive Program is conservatively structured. Other states not only are much more generous than Texas in terms of their legislative appropriations (some have unlimited appropriations) and their incentive rates, but they pay for out-of-state actors and production crew. The Texas program pays only after producers have proven that they have spent their production dollars in Texas, on crew, talent, and vendors, who are Texas-based. It is also important to note that the Texas program is front-loaded—economic benefits and jobs occur before incentive reimbursements/payouts occur.

Based on this report's extensive quantitative data, reviews of other states' incentive programs, and the qualitative interviews and case studies, the research team believes the Texas Moving Image Industry Incentive Program is very effective in achieving its legislative mandate. The economic and fiscal benefits are impressive:

> Employment—A total of 6,519 full-time equivalent (FTE) Texas residents, and a total of 10,383 direct and indirect FTE jobs across the state can be attributed to productions assisted by the moving image industry program. The number of direct jobs will increase to 8,062 from 6,519 and the total of direct and indirect FTE jobs will rise to 12,930 from 10,383 once the entire incentive appropriation is expended in FY 2010-2011.
>
> Economic Activity—Based on approved applications, the Texas Film Commission reported $598.3 million in direct moving production spending in Texas since the program's inception. The research team estimates this production spending generated a total of $1.1 billion in statewide economic activity in the State of Texas between 2007 and 2010.
>
> Taxes—The State of Texas, Texas counties, cities, school districts, transit districts, community colleges, and special districts have received $39.9 million to date, and will receive a total of $51.1 million once the entire incentive appropriation is expended.

In addition to being an effective program, the Moving Image Industry Incentive Program is efficient. The State of Texas receives a strong return on its investment:

> Average Cost per FTE Job By Industry Segment—Since inception, the cost per FTE job on average across all industry segments is $8,916, for each of the 6,519 jobs. The average cost by industry segments varies from $4,518 for video game jobs to $10,244 for television programs, $13,194 for feature films, and $18,699 for other commercials.
>
> Average Cost Compared to Other States—The Texas average cost per FTE job of $8,916 is less than half that of all other states and one-fourth the cost per job in Louisiana. On a slightly different measure, cost per all jobs (direct moving image industry jobs and jobs

indirectly attributable to these direct jobs), Texas again has the lowest cost among the states analyzed. The Texas incentive program cost is about 35% less than that calculated by one New Mexico study and slightly more than one-third the cost in Louisiana.

The program's results to date have been especially remarkable for two other reasons. First, incentives in Texas are less generous for film and television, and increasingly for video games, than those in other states. The reimbursement rates are uniformly lower, and Texas spends very little compared to other states when total population is factored in: only $1.21 for each state resident, compared to $2.71 in California, $2.89 in Florida, $4.76 in Pennsylvania, and $21.49 in New York.

Second, the Moving Image Industry Incentive Program is very young. It has been functioning as a competitive program only since late April 2009, when the statute was amended and new rules were promulgated to make the program attractive to industry decision-makers. Trend-line data show that there was a profound change in the number of projects and encumbrances beginning at that juncture. This program is in its infancy and hit its stride for the first time in 2010. If given time to mature and build upon its very recent successes with the existing appropriation amount, there would be a large return to the State in jobs and actual revenue beyond the current levels reflected in this report. If the program appropriation is diminished, the number of Texas-based projects across all industry sectors in 2011 and 2012 would contract, as producers move projects to other states with incentives.

Possible Actions

In addition, from the large number of proposed changes offered by individual interviewees and from this review, the research team identified several actions for consideration by policymakers.

A. A multi-state and perhaps international conference, hosted in Texas, to discuss the feasibility of a coordinated effort to reduce film incentives in each state. This should be coupled with Texas-based research utilizing game theory to determine an optimal level of incentives by ensuring that Texas' relative competitive position would not be compromised in any manner during those years when incentives are diminished, if a multi-state agreement (multi-state compact) were negotiated.

B. One or more interim studies (with or without formal legislative authorization) to examine potential improvements to the Moving Image Industry Incentive Program that were identified in the research for this report. These include at least the following:

    B.1. Expansion of incentives to new categories such as infrastructure (e.g. studios) as well as a new category in which preferential treatment is given to producers and companies who commit, and fulfill their commitments, to a set number of productions in future years.

    B.2. Provision for productions unaffected, for all practical purposes, by current program incentives (e.g. faith-based shows due to their smaller budgets) or in extremely competitive production niches, such as computer-generated films.

B.3. Creation of a supplemental fund for both video games and films/television, or a fund for each industry, which would receive payments only from very successful (blockbuster) films and games through some type of post-release revenue or profit incentive mechanism. To study the feasibility of this complex issue, the research team recommends creating a committee of industry participants who are knowledgeable about financial and legal issues in the two industries.

B.4. Restructuring the video game incentives in terms of when payments would be made to companies, for instance providing incentive payments earlier in the process as "milestone" payments rather than "ship" bonuses for some companies; exploring if some funds should be allocated specifically to smaller game companies to encourage start-ups and entrepreneurial activity.

The economic development potential of these industries is quite exceptional, if given time to mature. Withdrawing support now would produce severe, immediate economic consequences and possibly irreparable damage for the next 10 years and beyond. Incentives are a necessary, if not sufficient, element of building a moving image industry in Texas. The Texas incentive program does more with less than other states' moving image industry incentive programs, and to compete with other states, Texas must have an incentive program in place.

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Appendix B. Recent Economic Impact Studies and Program Evaluations from Other Jurisdictions

There have been a number of significant studies of film incentive programs in the past three years. Short annotations of each study or evaluative report are presented below.

California—This report from the California Center at the privately funded Milken Institute examines changes in the state's movie and video industry. Released in July 2010, the report, "Film Flight: Lost Production and Its Economic Impact on California," describes how incentives from other states and California's high cost of living have led to a dramatic decline in feature productions. In 2000, 272 movies were filmed or partially filmed in California while in 2008, that number had fallen to 160. Similarly, California's share of total employment in production, post-production, and independent artists, peaked in 1997 and has since declined. The report develops economic estimates primarily by focusing on losses—had the state retained its share of national employment in the industry, the state would have preserved 10,600 additional direct jobs and 25,500 additional indirect jobs. Additional wages ($91,893 per industry employee and $56,000 for employees in other industries) would have totaled approximately $2.4 billion. The output associated with these jobs would have been around $4.2 billion. A variety of recommendations are made to retain and support film and television production in the future.

Connecticut—In February 2008, the Connecticut Department of Economic and Community Development released its report, "The Economic and Fiscal Impacts of Connecticut's Film Tax Credit." The report reviewed the state's original tax credit program, since expanded, for the single fiscal year which ended September 30, 2007. For that single year, the program created 395 jobs (FTEs—total of direct and indirect), supported $55.1 million in film production spending, and $21 million in new real gross state product, at a cost of $12.6 million. The cost per each job was estimated at $31,810. At the time the study was released, 30 additional productions were in process with estimated spending of $282 million. Additional tax credits to be claimed were projected to be approximately $86 million. None of the film activity beyond the September 30, 2007 cutoff date was analyzed. The Connecticut report also summarizes early economic impact studies from the Canadian provinces of Manitoba and British Columbia.

Louisiana—Completed in February 2009, this analysis for the State of Louisiana Economic Development Department by Economics Research Associates of Chicago, determined that 3310 direct jobs had been created from the state's motion picture, sound recording, and digital media incentive programs from 2005 through 2007. An additional 2920 indirect jobs were created during the same time period. State government incentives for the three years totaled approximately $115 million, leading to production spending of $429 million. The cost per direct job was approximately $34,773 and the cost per all jobs (direct and indirect) was approximately $16,173. Detailed breakdowns were provided for each of the major segments (motion picture, sound recording, and digital media) and impacts on facilities also were described.

Massachusetts—Released in July 2009, this report by the Massachusetts Department of Revenue, detailed the economic impacts from $166 million in film tax credits for the calendar years of 2006 through 2008. The REMI economic forecasting model estimated total direct jobs (FTEs) at 1,876 for the three years and indirect jobs for the same time period at 1,300. Of those totals, 44% of direct jobs and 88% of indirect jobs were estimated to be held by Massachusetts residents. Total production spending was approximately $728 million. Wages paid on eligible projects totaled $429 million with approximately 82% of that amount paid to non-residents. The cost per direct job was approximately $45,434 and the cost per all jobs (direct and indirect) was approximately $27,158. Both figures included non-residents and residents. Costs per direct job and all jobs for Massachusetts residents only were substantially greater.

Michigan—There are two Michigan reports. The first, conducted by Michigan State University, was released in February 2009 and documented the first nine months of Michigan's Film Production Credit. Using a REMI model, it was estimated that the 32 productions, with total Michigan expenditures of $65.4 million, supported 665 direct jobs (FTEs) and another 437 indirect jobs (FTEs). Cost of the film production credit was not provided. The report describes prior studies of tourism related impacts after productions but makes no attempt to derive such impacts for Michigan films. A major portion of the report generates projected impacts in later years, based on the initial 32 productions in 2008.

The second report from the Senate Fiscal Agency, *Film Incentives in Michigan*, was released in September 2010. This report had an additional year's data and provided a more comprehensive review of the fiscal and economic impacts. Among its significant findings are that in calendar year 2008, the cost per direct job was $186,519, while in 2009, it was $193,333. For total jobs, the cost in 2008 was $42,991 and in 2009, it rose slightly to $44,561. Direct FTEs for the two years totaled 571, while total employment (FTEs) attributable to film productions was 2480 for the time period. One section of this report examines in detail important issues which arise in the analysis of film incentives and in comparison of film incentive studies by different authors and from different jurisdictions.

New Mexico—As in Michigan, there have been two primary reports on film incentives. The first, prepared by New Mexico State University for the Legislative Finance Committee, was issued in August 2008. It describes the major increase in productions from 2001 through 2007—the number of employees and the income received by these film employees increased almost ten-fold—employees increased from 286 to 2284 and total wages jumped from $6.2 million to $70.5 million. Then the economic impacts from the FY 2008 incentives were analyzed using IMPLAN. A total of 2,434 (891 direct and 1083 indirect) FTEs occurred from total production (direct, indirect, and induced) of about $345 million. Cost per direct job was computed at $42,873 and cost per all jobs at $14,872, based upon the $38.2 million in incentives. Other aspects of the New Mexico program such as the training expenditures (Film Credit Advancement Program), film related educational programs at universities, other capital expenditures, and the zero percent loan program were described.

Rather divergent results were reported by a consulting firm whose analysis was prepared for the New Mexico State Film Office and State Investment Council. Released five months later in January 2009, unlike nearly every other economic analysis performed reviewed, this report adds film related capital expenditures and projected film tourism expenditures to generate additional numbers of jobs. From these two sources alone, there were an estimated 3,769 direct jobs and 1,612 indirect jobs—these estimates were higher than the 2,220 direct and 1,609 indirect jobs (in other industries) from film productions in 2007. (It is unclear why there is a substantial discrepancy between these job totals for 2007 and the job totals in the New Mexico State University report for the same time period.) The unique methodology utilized in this report has not been replicated elsewhere, except for a report by the same consulting firm in a different locale.

Pennsylvania—Two years (2007-2008) of the Commonwealth's Film Tax Credits program were evaluated in this report released by the Legislative Budget and Finance Committee in May 2009. A consulting firm, using IMPLAN, estimated total economic impact of $525 million, $146.4 million in wages, and nearly $18 million in new tax revenues for state and local governments. The cost of the tax credits over the same time period was $58.2 million. A total of 3,960 FTE jobs were created from the tax credits: 2084 direct jobs and 1876 indirect jobs. The cost per direct job is estimated at $27,927 and the cost per all jobs (direct and indirect) was approximately $14,687. An additional $7.2 million was spent by studios on construction, building renovations and/or equipment which did not benefit from tax credits. This report also provides a good overview of Pennsylvania's motion picture industry, employment trends, firm level data, productions, and rationale for film incentives.

Province of Ontario—Ontario, Canada's second largest province in film and television production after British Columbia, was reviewed in "An Economic Profile of Domestic Film, Television and Cross-platform Interactive Media Production in Ontario." This report was prepared for the Ontario Producers Panel of the Canadian Film and Television Production Association and released in October 2009. It is a comprehensive economic and financial view of the sector, including production activity and financing; the industry's financial performance; the industry's economic impact on the province; copyright ownership issues; and producers' investment in technology and human capital. Nordicity Group Ltd. developed the Ontario review and a somewhat similar document, "09 Profile: An Economic Report on the Canadian Film and Television Production Industry."

Washington—A preliminary report of Washington's Motion Picture Competitiveness Program was released in October 2010 by the Joint Legislative Audit & Review Committee. This review identified $8.4 million in incentives for calendar years 2007 through 2009, and 1996 total jobs for state residents. However because of unreliable data from the non-profit agency in charge of incentives, this is not a FTE figure. Using IMPLAN, committee research staff estimated that sales tax revenues of $837,000 were generated from expenditures by production companies receiving incentives. And it was estimated that a total economic impact of $72 million occurred from $36 million in film production outlays.

Appendix C. Production Employment: One Day On NBC's "Chase"

The following summary is adapted from information provided to the research team by IATSE and illustrates the range of jobs and tasks on a typical TV episode.

Every production is different. From studio to independent, effects or character film, modern subject or period piece, every production is different. Even a network television series operating on a "pattern" budget is treated like individual episodic productions. And every episode is different.

Budget and storyline dictate the schedule and the pre-production stage attempts to plan every step before the cameras roll. Each of the 20-25 departments is staffed to support its craft whenever called to "perform." While the actors, producers and directors are frequently from out of state, an increasing number are local, and with few exceptions the rest of the persons employed on productions here are Texans.

On Wednesday, February 2, 2011, NBC's "Chase" shot day six of an eight day schedule for episode 18, in and around Dallas. That day's call-sheet shows the following departments and crew positions as Texas hires. Where the positions' title is not self-explanatory, a brief description is provided.

Production; Set

- First Assistant Director – Typically the first person hired, creates the shooting schedule and administers all activity related to the shooting crew.
- Second Assistant Director – Responsible for the mobile production office, daily call sheet, and daily report.
- 4 Production Assistants – Responsible for everything else

Continuity / Script Supervision

- Script Supervisor – Director's assistant during prep and production, keeps track of which camera records which shot, and which take(s) was preferred

Sound

- Sound Mixer – Department head that creates the sound recording
- Boom Operator
- Cable / Utility

Camera

- Director of Photography creates the recorded image and responsible for everything the camera "sees."
- 2 Camera Operators
- 2 First Assistant Camera – Camera set-up, focus, operation of support gear
- 2 Second-Seconds – Storage and transport of camera and support gear
- 2 Digital Technicians – Manage and store the digital image

- Computer Playback Operator

Grip Department – Camera and lighting support
- Key Grip – Department head works closely with the Director of Photography
- Best Boy – Responsible for equipment and manpower
- Dolly Grip – Controls mobile camera platforms
- 5 Set Grip / Hammers
- 2 Rigging Grips

Set Lighting / Electric
- Gaffer – Department head works closely with the Director of Photography
- Best Boy – Responsible for equipment and manpower
- Dimmer Board Operator – Digital control of and moving and fixed lamps
- 6 Lamp Operators / Electricians
- 2 Rigging Crew

Art Department
- Production Designer – Responsible for the appearance of every item photographed
- Art Director – Assistant to the Production Designer, and oversees the Construction, Scenic, and Set Departments

- <u>Set Construction</u>
  - Construction Coordinator – Build / modify / create sets
  - 2 Foremen / Gang Boss
  - 5 Carpenters

- <u>Scenic / Paint</u>
  - Lead Scenic – responsible for all
  - Foreman / Gang Boss
  - 2 Scenics / Painters / Agers
  - On-set / Stand-by Painter

- <u>Sets</u>
  - Set Decorator – Selects artwork, fabrics and finishes
  - Leadman – Coordinates department and budget
  - 3 Set Dressers / Swing Gang – Transports and decorates sets
  - On-set / Stand-by set Dresser

Wardrobe / Costume
- Costume Designer
- Costume Supervisor – Administrative arm of the designer
- Key Costumer – On-set department head
- 6 Set Costumers

- Ager / Dyer
- Cutter / Stitcher
- 2 Utility Costumer / PA

Make-up and Hair
- Key Make-up
- 2 Make-up Assistants
- Key Hair
- 2 Assistant Hair
- 2 Extras Hair /Make-up

Property
- Prop Master – Coordinates every item an Actor may physically touch
- Assistant Prop Master
- Food Stylist

Special Effects
- Key Effects – Pyrotechnics, bullet hits, weather (wind, rain, snow, etc.)
- Assistant Key Effects
- 2 Effects Technicians
- Weapons Master
- Weapons Assistant

Locations
- Location Manager – Acquires and contracts for "practical"/ non-stage locations
- 2 Locations Assistants

Transportation
- Transportation Coordinator
- Captain – Assistant to the Coordinator
- Picture Cars Coordinator
- Picture Car Mechanic
- 19 Drivers

Craft Services – Mini kitchen on-set
- Key Craft Service – Stocks and distributes between meal snacks, energy drinks, vitamins, etc.
- Assistant Craft Service

Catering – Primary kitchen prepares and serves two to three meals per day, sets up and takes down dining area
- Chef
- 2 Assistant Chef
- 2 Line Cook

First Aid

- Set Medic
- Construction Medic

Production; Office

- Production
  - Unit Manager / UPM – Head of production and chief bursar,
  - 2 Production Coordinator – Administrative arm of UPM
  - 2 Assistant Production Office Coordinator / APOC
  - 3 Office Production Assistants (PA) – Errands and general training ground for the next boss

- Accounting
  - Production Accountant
  - 2 Assistant Accountant
  - Payroll Accountant
  - Payroll Clerk

- Casting
  - 3 Local Casting Agent – Hires and administers all extras and most non-principal actors (The stars and featured actors being customarily cast in New York or Los Angeles).

Editorial

- 2 Local Editor – Assembles scenes during production / coordinates reshoots
- Foley Supervisor – Records, stores and edits additional audio (footsteps, explosions, etc.)

85 Extras

In addition to the 150 Texans employed by "Chase" for over 12 hours of work on this day, 85 extras worked approximately eight hours each. The sixth day of "Chase," Episode 18, was a long day but not an uncommon one.

Appendix D. Texas Gaming Companies

Company	Website	City
3D Realms	www.3drealms.com	Garland
Apogee Software	www.apogeesoftware.com	Garland
Arkane Studios	www.arkane-studios.com	Austin
Armature Studio	www.armaturestudio.com	Austin
Aspyr Media	www.aspyr.com	Austin
Barking Lizards Technologies	www.barkinglizards.com	Richardson
BioWare Austin (Electronic Arts)	www.bioware.com	Austin
Black Lantern Studios	www.blacklanternstudios.com	Austin
Blazing Lizard	www.blazinglizard.com	Austin
Blizzard Entertainment	www.blizzard.com	Austin
blockdot	www.blockdot.com	Dallas
Bluepoint Games	www.bluepointgames.com	Austin
Bonfire Studios	www.bonfire-studios.com	Dallas
BreakAway Games	www.breakawaygames.com	Corpus Christi
Certain Affinity	www.certainaffinity.com	Austin
Challenge Games	www.challengegames.com	Austin
Controlled Chaos Media	www.cchaosmedia.com	Dallas
Cornered Rat Software	www.wwiionline.com	Bedford
Critical Mass Interactive	www.criticalmassinteractive.com	Austin
Devolver Digital	www.devolverdigital.com	Austin
Edge of Reality	www.edgeofreality.com	Austin
Electric Bat Interactive	www.electric-bat.com	Austin
Electronic Arts Pogo	www.pogo.com	Austin
Escalation Studios	www.escalationstudios.com	Dallas
GameSalad	www.gamesalad.com	Austin
Gearbox Software	www.gearboxsoftware.com	Plano
Ghostfire Games	www.ghostfiregames.com	Austin
Heatwave Interactive	www.heatwaveinteractive.com	Cedar Park
id Software	www.idsoftware.com	Mesquite
igda Austin Chapter	www.igda.org/austin	Austin
igda Dallas Chapter	www.dallasigda.org	Dallas
Iron Will Games	www.ironwillgames.com	Austin
Junction Point Studios (Disney Interactive)	www.junctionpoint.com	Austin
KingsIsle Entertainment	www.kingsisle.com	Austin
KingsIsle Entertainment	www.kingsisle.com	Dallas
Lightbox Interactive	www.lightboxinteractive.com	Austin
Method-Solutions	www.method-solutions.com	Addison
Midnight Studios	www.midnight-studios.net	Austin

Mock Science	www.mockscience.com	Austin
Monstrous Company	www.monstro.us	Austin
Multimedia Games	www.multimediagames.com	Austin
Mumbo Jumbo	www.mumbojumbo.com	Dallas
NCsoft Austin	www.plaync.com	Austin
Nerve Software	www.nervesoftware.com	Mesquite
Newtoy	www.newtoyinc.com	McKinney
Night Owl Games	www.nightowlgames.net	Austin
Online Alchemy	www.onlinealchemy.com	Austin
Palestar	www.palestar.com	Austin
Pangea Software	www.pangeasoft.net	Austin
Panic Button	www.panicbuttongames.com	Austin
Perpetual FX	www.perpetualfxcreative.net	Dallas
Pi Studios	www.pistudios.com	Houston
Playtechtonics	www.starportgame.com	Austin
Possibility Space	www.possibilityspace.com	Austin
RedFly Studio	www.redflystudio.com	Austin
Renegade Kid	www.renegadekid.com	Austin
Replay Games	www.replaygamesinc.com	Austin
Retro Studios (Nintendo)	www.retrostudios.com	Austin
Robot Entertainment	www.robotentertainment.com	Plano
Roxor Games	www.roxorgames.com	Austin
Sharkbyte Studios	www.sharkbyte.com	Houston
Soldak Entertainment	www.soldak.com	Plano
Sony Online Entertainment	www.sonyonline.com	Austin
Southpeak Interactive	www.southpeakgames.com	Grapevine
Spacetime Studios	www.spacetimestudios.com	Austin
SpiderMonk Entertainment	www.spidermonk.com	Grapevine
Steve Jackson Games	www.sjgames.com	Austin
Stray Bullet Games	www.straybulletgames.com	Austin
Super Happy Fun Fun	www.superhappyfunfun.com	Austin
Tandem Games	www.tandemgames.com	Round Rock
Terminal Reality	www.terminalreality.com	Lewisville
Third Wire Productions	www.thirdwire.com	Austin
Thriller Publishing	www.thrillerpublishing.com	Austin
Tiger Style	www.tigerstylegames.com	Austin
TimeGate Studios	www.timegate.com	Sugar Land
Total Immersion Software	www.totimm.com	Austin
Trion World Network	www.trionworld.com	Austin
Triptych Games	www.triptychgames.com	Plano
Twist Education	www.twisteducation.com	San Antonio
Twisted Pixel Games	www.twistedpixelgames.com	Austin
UTV True Games	www.utvtruegames.com	Austin

Vigil Games	www.vigilgames.com	Austin
Wild Hare Entertainment	www.gowildhare.com	Richardson
Zynga Dallas	www.zynga.com	Dallas

Source: http://www.gamedevmap.com/index.php?query=texas February 9, 2011